2006 SGI CANADA annual report

EXPANDING our vision

SGI CANADA

VISION & values

VISION

We will become a leading national property and casualty insurer by offering competitive, high-quality products and services in partnership with our brokers.

VALUES

INTEGRITY
Conducting ourselves with honesty, trust and fairness

CARING
Acting with empathy, courtesy and respect

INNOVATION
Implementing creative solutions to achieve our vision

ABOUT SGI CANADA

SGI CANADA is a dynamic and innovative company selling property and casualty insurance products in more than half of Canada's provinces. It currently operates as SGI CANADA in Saskatchewan, SGI CANADA Insurance Services Ltd. in Manitoba and Alberta, the Coachman Insurance Company in Ontario and The Insurance Company of Prince Edward Island throughout the Maritimes. The company employs about 1,700 people and has its head office in Regina. Products are sold through a network of 474 independent insurance brokers.

2006 SGI CANADA *annual report*

EXPANDING our vision

TABLE *of contents*

LETTER *of transmittal*

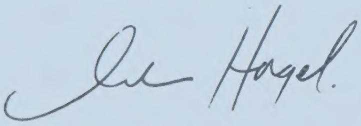
Regina, Saskatchewan
March, 2007

To His Honour
The Honourable Dr. Gordon L. Barnhart
Lieutenant Governor of the Province of Saskatchewan

Your Honour:

I have the honour to submit herewith the annual report of Saskatchewan Government Insurance for the year ended December 31, 2006, including the financial statements in the form required by the Treasury Board and in accordance with *The Saskatchewan Government Insurance Act*.

I have the Honour to be, Sir,
Your obedient Servant,



Honourable Glenn Hagel
Minister Responsible for Saskatchewan Government Insurance

CHAIR'S *letter*

In 2006, SGI CANADA experienced its most financially successful year, while continuing to expand across the country.

Our move into the Alberta, Nova Scotia and New Brunswick marketplaces was an amazing accomplishment for the entire company and I'd like to personally thank all those employees and brokers who worked so hard to bring that project to fruition. The new markets represent huge potential for SGI CANADA and I'm excited for what the future holds.

The record financial year of the Corporation is a direct result of our top-notch network of independent brokers and our dedicated team of employees. Both have worked extremely hard in bringing success to our operations.

I would also like to thank the Board of Directors for their guidance, support and enthusiasm. Your work has helped SGI CANADA achieve a healthy financial position and put it well on its way of reaching its vision of being a leading, national property and casualty insurance company.

Nancy E. Hopkins
Chair

PRESIDENT'S *message*

Overall, 2006 was an outstanding year for SGI CANADA as it posted record profits and continued to expand nationally to spread risk, maintain and create jobs and increase profitability for shareholders.

Posting a profit of $52 million, SGI CANADA's strongest financial year in its 61-year history is due in large part to average claims costs thanks to very little storm activity right across the country and continued success in our expansion efforts outside Saskatchewan - which all posted profits.

It's important to note that our success hasn't come at the expense of charging unreasonable premiums. SGI CANADA has always adhered to strict underwriting practices and prides itself in charging the appropriate premium for the appropriate risk. This approach did not change in 2006.

SGI CANADA has also long operated under a philosophy of careful and controlled growth, and that philosophy is working. Our expansion efforts are yielding an increased book of business, profitable results and equally as important - new jobs.

Expansion also spreads risk to protect Saskatchewan shareholders which is extremely important due to SGI CANADA's large market share in the province. Losses in one product or province can be made up through profits in other products and in other provinces. This was never more evident than in 2005, when higher claims costs in Saskatchewan were offset by lower claims costs and higher profits in our operations in other parts of Canada.

It's a basic business principle for insurance companies to protect against significant losses in one geographic location - and it's working for us.

Expansion began in 1993 when SGI CANADA Insurance Services Ltd. began offering property and casualty products in Manitoba. In 2001, SGI CANADA became the major shareholder in the Insurance Company of Prince Edward Island and also purchased the Coachman Insurance Company in Ontario.

Our latest expansion effort - and one of our greatest successes in 2006 - was into the Alberta marketplace offering a full suite of insurance products through a network of approximately 50 independent brokers.

Selling our first policy on June 19, 2006 in Edmonton, SGI CANADA Alberta sold over $2 million in premium in the first six months alone.

It's very encouraging to see that all lines of business are performing well and that we're receiving positive feedback from our Alberta broker force. Alberta is a huge market and represents amazing potential for SGI CANADA in the years ahead.

Another promising and exciting development from 2006 was expanding The Insurance Company of Prince Edward Island (ICPEI) broker force in Nova Scotia and New Brunswick. We now have strong representation throughout the Maritimes and have a market presence in seven Canadian provinces.

SGI CANADA-owned Coachman Insurance in Ontario experienced a turn-around in 2006 posting a profit in all lines of business. This is due in large part to the improvement in Coachman's auto business and the increase in property business.

SGI CANADA Manitoba also posted a profit this year even though we did experience a few major claims throughout the year. Adding new brokers in new regions of the province should only improve the bottom line in 2007.

Looking at our operations in Saskatchewan, we continue to post impressive profits with the help of our strong broker force, while maintaining a 40 per cent share of the market.

It's our goal to maintain that consistent market share and continue increasing the percentage of business we write outside the province.

In 2006, SGI CANADA wrote about 17 per cent of its business outside of Saskatchewan. By 2011, the Corporation hopes to have 30 per cent of its business outside of Saskatchewan.

I would like to personally thank our talented team of employees and independent brokers for their hard work and dedication in 2006. The Corporation's financial success is a direct result of your efforts and would not have been possible without you.

As we move into 2007, SGI CANADA continues to move closer to achieving its vision of becoming a leading national property and casualty insurer by offering competitive, high-quality products and service, in partnership with our brokers.

Jon Schubert
President

FINANCIAL *highlights*

SGI CANADA posted an overall consolidated profit of $52 million in 2006 as a result of significant contributions from our out-of-province operations and lower than expected claims costs due to the absence of large storms across the country. In 2006 out-of-province operations provided 25 per cent of the after-tax profit and 15 per cent of the premium.

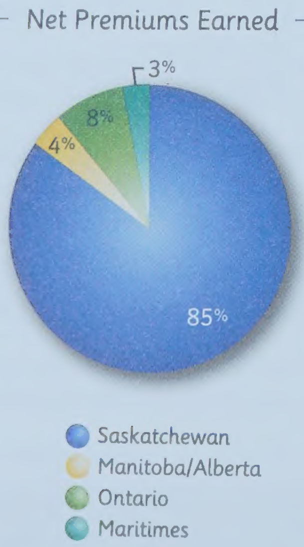
In 2006, SGI CANADA was able to improve upon hugely successful years from the past two years.

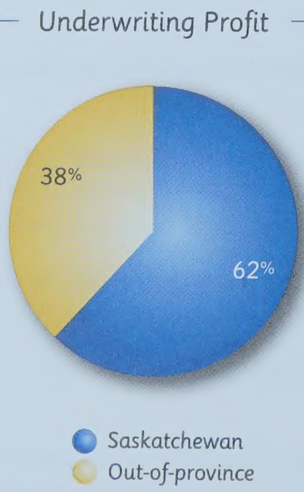
Net premiums written totalled more than $301 million, which is an increase of approximately $15 million or a five per cent increase from 2005.

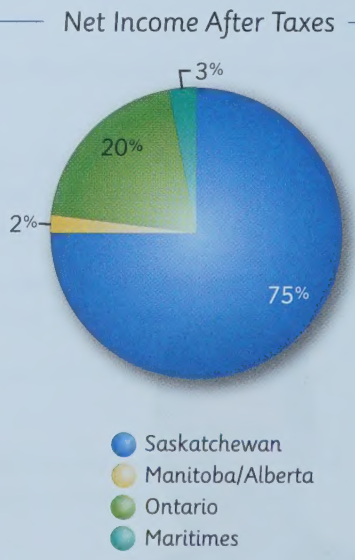
SGI CANADA's underwriting profit for the year was also the largest in the corporation's history at approximately $25 million with more than one-third of that earned by the corporation's expansion operations in Alberta, Manitoba, Ontario and the Maritimes.

SGI CANADA posted a consolidated pre-tax return on equity of 35 per cent. The corporation's average pre-tax return on equity during the last 10 years is 22 per cent, while the industry average is an estimated 15 per cent.

For 2006, SGI CANADA will pay a dividend of more than $33 million to its parent company, the Crown Investments Corporation of Saskatchewan (CIC).







EVOLVING *our business*

ALBERTA EXPANSION

On June 19, 2006, SGI CANADA Alberta sold its first insurance policy in Edmonton.

Alberta residents now have access to SGI CANADA's competitive, high-quality insurance products and services sold across the province through a network of close to 50 brokers.

With a full suite of insurance products, SGI CANADA is concentrating its sales in rural Alberta, with a presence in urban areas of the province.

SGI CANADA Alberta sold $2 million in premiums in just six months and posted a profit of $349,000, which exceeded all expectations.

To improve sales further, the corporation introduced the AIR MILES® Reward Program in Alberta early in the new year, which will also add to the fantastic start.

Broker feedback from Alberta continues to be positive with SGI CANADA receiving high marks for its customer service and competitively priced products, which are receiving great support in all lines of business.

It's expected this growing trend in Alberta will continue for the foreseeable future, as expansion continues to offer greater financial stability, higher profits for shareholders and more jobs.

GROWTH IN THE MARITIMES

The Insurance Company of Prince Edward Island (ICPEI) posted a profit of approximately $2 million in 2006 due to lower than expected claims costs.

ICPEI's success is also due in large part to a strong relationship with its brokers throughout the Maritimes, which includes new brokers added in New Brunswick and Nova Scotia this year.

ICPEI launched new websites for its customers and brokers in 2006 to rave reviews. Customers can now locate a broker with the simple click of a button and brokers have their own individual extranets with location-specific information.

In 2007, ICPEI is introducing a new and innovative auto product in New Brunswick and Nova Scotia, which has already been well-received by our broker force.

ICPEI also expanded the AIR MILES® Reward Program from P.E.I. to New Brunswick and Nova Scotia, which will be another selling feature for ICPEI products in 2007.

COACHMAN INSURANCE COMPANY

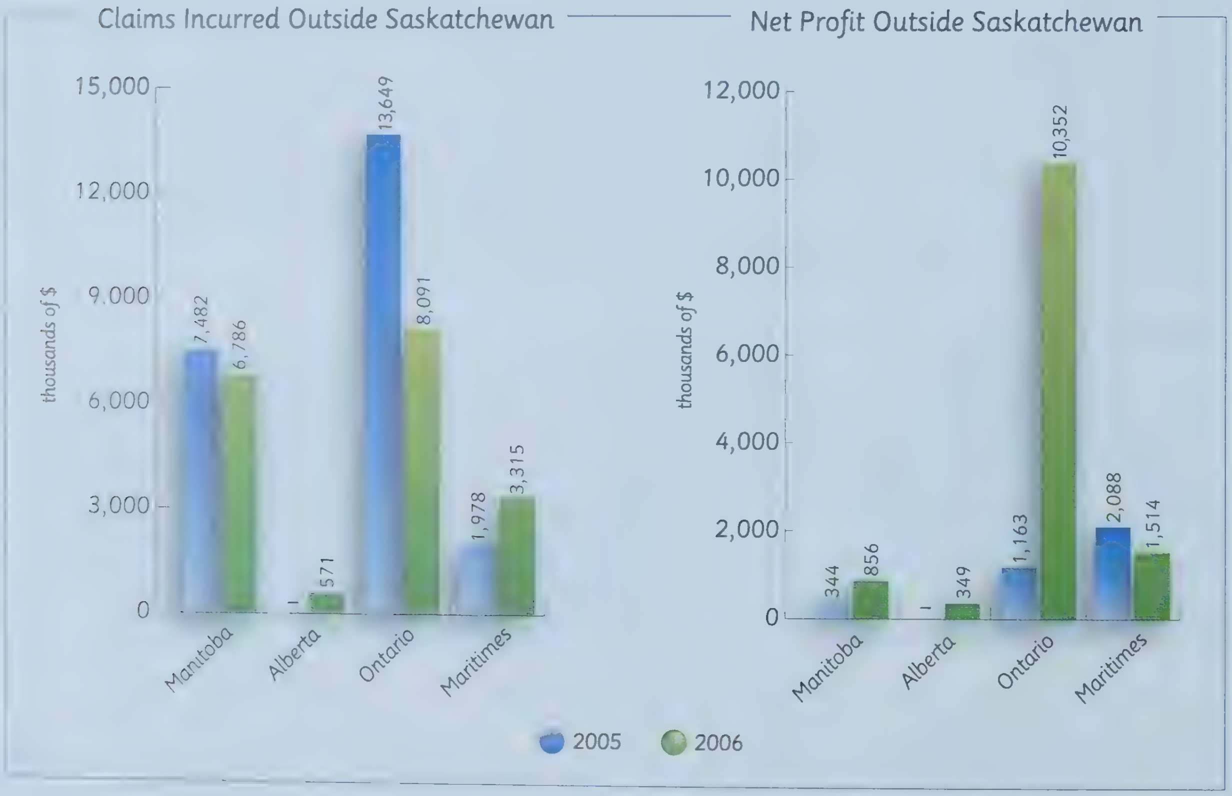
Coachman posted a net income of $10.4 million in 2006, an increase of $9.2 million from the previous year.

This year was a real turn-around year at Coachman with significant profits in all lines of business. This is due in large part to the improvement in Coachman's auto business.

There has been a great deal of support for Coachman's commercial and personal property products, which has resulted in the improvement to the bottom line.

In 2006, Coachman was able to improve its home product thanks to the input from the broker council created in 2005.

The enhancements made over the previous few years will only attract more customers and higher profits in the future.



SGI CANADA MANITOBA

The property book of business in Manitoba continued to grow in 2006. Thanks to a strong broker force and the lack of severe summer storms, SGI CANADA posted a profit in Manitoba of approximately $856,000.

In 2006 SGI CANADA Manitoba appointed additional brokers in areas of the province where the company was previously not represented or under-represented.

A number of significant claims did impact Manitoba's profit, however all indications point to a strong year in 2007.

SGI CANADA SASKATCHEWAN

SGI CANADA is looking at record profitability in Saskatchewan due to the lack of severe summer storms this year and the continued support from its network of independent brokers.

Experiencing an average summer storm year, SGI CANADA Saskatchewan posted an overall profit of $39 million and an underwriting profit of $15.6 million - its most successful year on record.

Claim costs were down $1 million from 2005 - a year in which claim costs skyrocketed to over $139 million.

The corporation aims to maintain a 40 per cent market share in Saskatchewan through responsible pricing and dependable service.

SGI CANADA has been in business with its Saskatchewan brokers for over 60 years and it's extremely important that partnership continues to flourish.

the PRESIDENT'S youth advisory council

SGI's employees are instrumental to the success of the corporation and in the next several years the corporation is going to see many of its most senior and experienced employees retire. To ease the transition of the shifting demographic, SGI's youth have taken on an active and dynamic role in the company.

Created in March 2005, the President's Youth Advisory Council (PYAC) consists of 15 SGI employees who come from different departments and a variety of backgrounds. There are also an additional 40 members that make up PYAC's four sub-committees - Better Workplace, Social, Business Strategy and New Media.

PYAC was established to work with the company to address youth-related issues and develop future leaders for SGI. The council meets with the executive several times a year to provide feedback and discussion on a number of issues, including opportunities for youth, increasing awareness of SGI as an "employer of choice" and enhancing the youth friendliness of our corporate culture.

"The youth council has injected a huge amount of enthusiasm and fun back into the company over the past couple years," says SGI President Jon Schubert. "The pride and passion these young employees have put into their projects is amazing. They are providing an excellent voice for youth at SGI and represent a bright future for the company."

PYAC'S VISION

As a youth network we will foster a positive atmosphere where all ages work together with a strong sense of belonging in an environment of wide-open opportunities.

PYAC'S MISSION

Provide a voice for youth by promoting a better workplace, influencing business strategy, facilitating social activities and providing new media alternatives.

The projects PYAC has taken on over the past two years have boosted employee morale, improved SGI's image in the community and brought employees closer together. In the past year, their vision and mission can be seen in the following initiatives that the council has lead:

- The building of two new homes for Habitat for Humanity
- The first and second annual SGI Youth Conferences
- SGI's Top 10 Saskatchewan Employers' ranking
- Five Youth Spotlight and Mentor Awards to SGI employees
- The Apex award-winning PYAC website
- Cargo - SGI's new, online employee carpool registry
- $1,000 raised for Z99's Radiothon
- Two successful Grub Crawls in Regina and Saskatoon for SGI employees

SGI CANADA *in the community*

JUNIOR ORDER OF MERIT GOLF CHAMPIONSHIP

A spectacular hole-in-one capped off this year's SGI CANADA Junior Order of Merit Tour Championship, which was held in Regina on August 23 at the Deer Valley Golf and Estates and on August 24 at the Royal Regina Golf Club.

The ace belonged to Kim Morrison (below, right) who was also the overall championship winner for the young women.

"I didn't even think about keeping the ball. I was so psyched about getting the hole-in-one that I forgot," said Morrison, who was so pleased about her accomplishment that she ended up hitting the ball in the creek on a later hole.

The top gross score finisher in the 18 and under young men's category and the overall championship winner for the young men was Scott Thompson (below, left).

"I worked hard practising at home and everything worked out," said the 17-year-old from St. Walburg, Saskatchewan, who would like to golf for the University of British Columbia and is contemplating obtaining a Bachelor of Commerce degree or going into law.

The second annual championship was the culmination of more than 40 SGI CANADA-sponsored golf tournaments throughout Saskatchewan that kicked off in early May.

The tour and championship are a reality thanks to SGI CANADA partners like the Saskatchewan Golf Association, participating SGI CANADA brokers and the Insurance Brokers' Association of Saskatchewan.

SGI CANADA is proud to help support positive activities for youth, who are the future of our communities.

SGI CANADA CHARITY ROAD RACE

Over 300 people ran, walked and rolled in the sunshine during the seventh edition of the SGI CANADA Charity Road Race held on Sunday, June 4, in downtown Regina.

Competitors from across the Prairies took part in this premiere running event that featured 10K and 5K road races, a 2K family walk and a 10K wheelchair race. The run also featured dozens of SGI employees who left it all out on the course.

Over 40 SGI employees volunteered during the race helping out with registration, course marshalling, the water stations and finish line.

All proceeds from the race go directly to Kids Help Phone - a national, toll-free, confidential counseling service available to children and youth 24 hours a day in both English and French.

Since the race's inception, SGI CANADA has donated close to $30,000 to this valuable cause.

HELPING TO BUILD A FOUNDATION FOR THE FUTURE

In May 2006, SGI CANADA and its President's Youth Advisory Council (PYAC) donated $60,000 to a Habitat for Humanity build in Regina.

SGI employees did more than just write a cheque, they also helped build the homes.

Starting with the ground-breaking ceremony on May 25, and three build weekends throughout the summer, SGI employees framed, insulated, landscaped and painted the homes in just four months.

The project, led by SGI's young employees, came to a successful conclusion in September 2006, as the keys to both homes were handed off to the mothers in a special key dedication ceremony.

MANAGEMENT'S discussion & analysis

The following management's discussion and analysis (MD&A) is the responsibility of management and reflects events known to management to February 28, 2007. The Board of Directors carries out its responsibility for review of this disclosure principally through its Audit and Finance Committee, comprised exclusively of independent directors. The Audit and Finance Committee's mandate can be found on the Corporation's website at www.sgi.sk.ca under About SGI. The Board of Directors approved this MD&A at its meeting on March 1, 2007, after a recommendation to approve was put forth by the Audit and Finance Committee.

OVERVIEW

The MD&A is structured to provide users of SGI CANADA's financial statements with insight into SGI CANADA (denoted as the Corporation) and the industry in which it operates. This section contains its strategies and its capability to execute the strategies, key performance drivers, 2006 results, liquidity and capital, critical accounting estimates, upcoming changes in announced accounting policies, risk management and the outlook for 2007. Information contained in the MD&A should be read in conjunction with the consolidated financial statements, and the notes to the consolidated financial statements, along with other sections in this annual report. All dollar amounts are in Canadian dollars.

The following table of contents provides a quick reference to the main sections within this MD&A:

WHERE SGI CANADA CAME FROM

In 1944, the Government of Saskatchewan passed *The Saskatchewan Government Insurance Act* creating the provincial Crown corporation that is known today as SGI. SGI was created to rectify problems in the Saskatchewan insurance industry. At that point in time, poor economic conditions had driven many insurers out of the province.

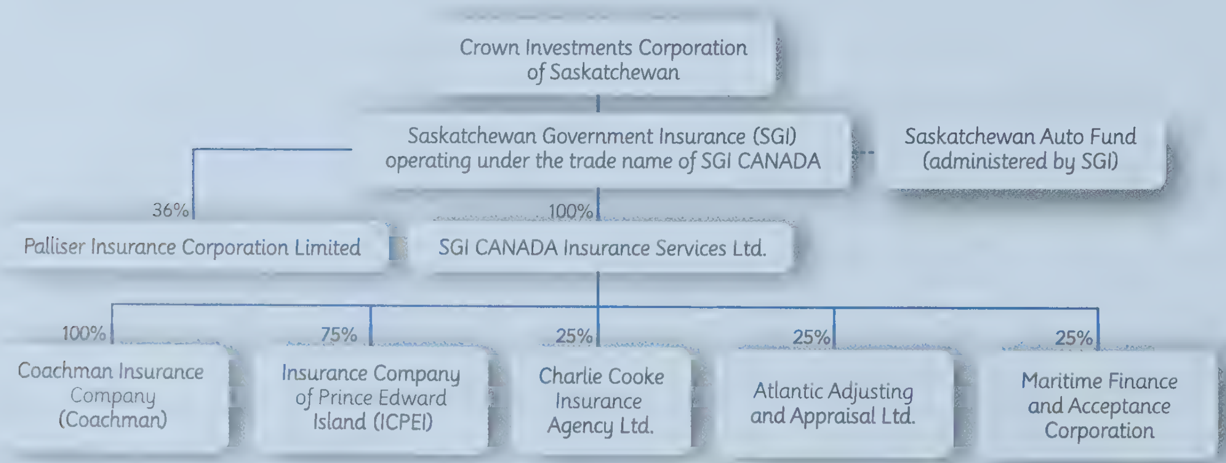
SGI's mandate since its inception has been to provide comprehensive, affordable insurance protection to the people of Saskatchewan. In 1980, legislated changes to *The Saskatchewan Government Insurance Act, 1980* and *The Automobile Accident Insurance Act* distinguished between the compulsory provincial vehicle insurance program for the province (the Saskatchewan Auto Fund) and the competitive insurer which would offer additional property and casualty products (SGI CANADA).

SGI CANADA is the trade name that SGI operates under to provide competitive, quality property and casualty (P&C) insurance products in Saskatchewan. P&C product offerings include policies for automobile, home, farm and commercial enterprises. In addition, SGI CANADA, through its subsidiary SGI CANADA Insurance Services Ltd., offers similar products in six other provinces across Canada.

The SGI CANADA annual reports are available on its website at www.sgicanada.ca under Corporate Profile.

The operations in provinces outside Saskatchewan are important to the Corporation in order to spread risk, maintain and create jobs in Saskatchewan, and increase economic returns for SGI CANADA's shareholder, Crown Investments Corporation of Saskatchewan (CIC). In 1993, SGI CANADA Insurance Services Ltd. began offering P&C insurance in Manitoba. In 2001, SGI CANADA Insurance Services Ltd. became the majority shareholder (75%) of the Insurance Company of Prince Edward Island (ICPEI) and also purchased 100% of the shares of Coachman Insurance Company (Coachman). Coachman operates in Ontario while ICPEI operates in Prince Edward Island, New Brunswick and Nova Scotia. In June 2006, SGI CANADA Insurance Services Ltd. commenced operations in Alberta offering a full package of P&C insurance products (auto, home, farm and commercial enterprises).

The Corporation is a provincial Crown corporation wholly owned by CIC. The following organization chart illustrates the Corporation's ownership structure:



As a provincial Crown corporation, SGI CANADA is not subject to federal or provincial income taxes. Its subsidiaries are not provincial Crown corporations, thus they are subject to federal and provincial income taxes. The consolidated financial results of SGI CANADA are included in CIC's, its parent company's, consolidated financial statements.

At December 31, 2006, the Corporation employed over 1,700 people and operated with a network of 277 independent brokers throughout Saskatchewan, as well as 197 brokers operating in Manitoba, Alberta, Ontario, Prince Edward Island, New Brunswick and Nova Scotia. SGI CANADA's corporate head office is located in Regina, Saskatchewan.

THE PROPERTY AND CASUALTY INSURANCE BUSINESS ENVIRONMENT[1]

At September 30, 2006, Canada's highly competitive P&C industry had approximately 200[2] private and government-owned insurers. The P&C industry covers all types of insurance other than life and health insurance. In 2006, the automobile insurance sector was the largest contributor to premium volume to the industry (48%) followed by property (34%), liability insurance (13%) and other (5%).

Insurance is a mechanism for spreading risk, for sharing the losses of the few among the many. Insurance makes the life of an individual or business enterprise more stable by allowing people and businesses to engage in many ventures without having to set aside reserves to meet the financial requirements that may arise from certain types of losses. Insurance also facilitates the granting of credit by protecting the investments of both lenders and borrowers.

Insurance can be considered as a large pool into which policyholders place their premiums.[3] This pool provides for payment of losses suffered by those who have claims, and for the cost of running the insurance company. Sometimes total premiums are insufficient to pay claims and operating expenses, however, insurers also use investment earnings to pay claims and keep premiums lower than they might otherwise be.

P&C insurance companies are supervised and regulated at the federal and provincial levels. The federal regulator, the Office of the Superintendent of Financial Institutions, is responsible for the solvency and stability of P&C insurance companies registered federally. Provincial authorities supervise the terms and conditions of insurance contracts and the licensing of companies, agents, brokers and adjusters, along with monitoring the solvency and stability of provincially-registered companies. SGI CANADA's subsidiaries are provincially-regulated insurance companies.

Since automobile insurance is compulsory in Canada, unlike home and business insurance, it is the most regulated area that P&C companies operate within. Regulation of premium rates is based on claims and other costs of providing insurance coverage, as well as projected profit margins. Regulatory approvals can limit or reduce premium rates that can be charged, or delay the implementation of changes in rates. The Corporation's automobile premiums are subject to rate regulation in Alberta, Ontario, Prince Edward Island, New Brunswick and Nova Scotia, which represent approximately 8% of the consolidated premiums earned in 2006.

With net premiums written exceeding $33.1 billion in 2005 and control of investment assets of over $68 billion, the industry is a major part of the social and economic fabric of Canada. P&C insurers invest mainly in domestic government bonds, corporate bonds, preferred shares and common stocks. These investments are secure financial instruments that produce a steady flow of income. Government regulations are in place for the P&C industry that require these investments to be made using a prudent person's viewpoint.

The P&C industry also utilizes reinsurance. Reinsurers, most of whom are international organizations, spread their risks by writing business with insurers in several countries and in many regions around the world. Insurance companies pay premiums to reinsurers in exchange for an agreement to have a proportion of their claims paid for them, particularly in the event of a major loss or catastrophe. Reinsurance is one of many tools used by insurers to guarantee that they will meet every obligation to pay legitimate claims. Recent disasters around the world have led to a decline in the amount of reinsurance available to insurers. As a result, Canadian insurance companies have had to pay higher prices for reinsurance.

1 Adapted from "**Facts About Property and Casualty Insurance In Canada**" prepared by the Insurance Bureau of Canada, *Facts 2005*.
2 P&C industry data obtained from MSA Researcher P&C database.
3 This and other terms are defined in the glossary included in this annual report. The glossary begins on page 77.

Unlike the prices of other goods and services, P&C insurance premiums do not necessarily keep pace with the general rate of inflation. In most other businesses, the costs of producing and selling a product are known before the price is determined; but P&C insurance is priced before the costs are known. Insurance companies do not know ahead of time how much it may cost to repair a house or a car; nor do they know definitely that they will be called upon to do so.

The Property and Casualty Insurance Compensation Corporation (PACICC), a non-profit entity, was formed in 1988 to provide a reasonable level of recovery for policyholders and claimants under most policies issued by P&C companies in Canada in the unlikely event of the failure of a Canadian P&C company. The maximum amount a policyholder could recover from PACICC is $250,000 in respect of all claims arising from each policy issued by the insolvent insurer, and arising from a single occurrence. Policyholders may also claim 70% of unearned premiums that have been paid in advance to a maximum of $700 per policy.

Membership in PACICC is compulsory for most P&C insurers in Canada. SGI CANADA, SGI CANADA Insurance Services Ltd., Coachman and ICPEI are all members of PACICC. Members have contributed funds to PACICC so there is money available to pay claims immediately in the event of an insolvency occurring in the industry. Member insurers will provide additional funds, as required, to maintain PACICC. For more information on PACICC, visit its website at www.pacicc.com.

STRATEGIC DIRECTION

In 1999, CIC and its subsidiaries developed a Crown Sector Strategic Plan to provide long-term direction to the Crown sector and facilitate long-term strategic planning. The plan includes a consistent vision statement for the Crown sector, its primary business purposes, common business values and strategic business objectives. The Corporation's strategic plan supports CIC's long-term direction for the Crown sector and overall Crown sector strategic objectives.

In late 2005, SGI CANADA updated its vision statement to reflect the Corporation's new strategic direction. While the vision changed for 2006, the values under which the Corporation operates have not. SGI CANADA's Vision and Values are as follows:

Vision

We will become a leading national property and casualty insurer by offering competitive, high-quality products and services in partnership with our brokers.

Values

Integrity	Conducting ourselves with honesty, trust and fairness
Caring	Acting with empathy, courtesy and respect
Innovation	Implementing creative solutions to achieve our vision

CORPORATE STRATEGIES

SGI CANADA's corporate strategies focus on maintaining its Saskatchewan market share, while expanding operations out-of-province profitably.

SGI CANADA's rationale for growth outside Saskatchewan is to spread geographic risk, create and maintain jobs in Saskatchewan and return a profit to its shareholder. Growth is important because writing business solely in one geographic location (Saskatchewan) presents a significant risk exposure for an insurance company. Further growth opportunities within Saskatchewan, from an insurance perspective, are limited.

It is, therefore, critical to the long-term success of SGI CANADA to continue to increase premium revenue profitably from outside Saskatchewan.

To meet its overriding strategic goals, the Corporation's main areas of strategic focus are as follows:
- Competitive Business;
- Customer;
- People; and,
- Business Technologies.

The four areas above are crucial to SGI CANADA's success. Within these four areas, the Corporation has specific strategic initiatives and has developed key targets to measure performance. The Corporation uses a Balanced Scorecard to monitor its performance and results. The Balanced Scorecard objectives provide a balanced evaluation of key operations and financial results, activities and achievements with both a short and long-term focus. The following sections discuss key initiatives in each of the four areas of strategic focus, as well as the related key performance indicators from the Balanced Scorecard.

Competitive Business

Key to the Corporation's success is its ability to grow while maintaining profitability in a highly competitive industry. Operations in provinces outside Saskatchewan continue to be crucial to SGI CANADA's growth strategy. Also, the strategy includes maintaining the Corporation's large market share within Saskatchewan. Losses in one product or province can be made up through profits in other products and in other provinces. It is a basic business principle for insurance companies to lessen the impact of significant losses by having diversified operations - both geographically and in product mix. It is important to continue to spread risk, although it is understood that it is not always possible for all segments or markets to be profitable each year. One measure for geographic diversification is the percentage of business written outside Saskatchewan. At December 31, 2006, approximately 17% of direct premiums written were from outside Saskatchewan.

To be competitive in the P&C insurance industry in Canada, adequate capitalization is critical. This is not only important from a regulatory perspective, but to allow the Corporation to be flexible in its product offerings in a competitive marketplace. SGI CANADA's main sources of equity are from retained earnings and capital from its parent, CIC. There have been no new capital advances to SGI from its parent during 2006. As well, there have been no changes to the capital in the Corporation's subsidiaries during 2006. As SGI and each of its subsidiaries have been profitable during 2006, retained earnings have grown which has contributed to improved capitalization within each subsidiary.

While growth is key to long-term success, the Corporation overall must be profitable in order to sustain growth. To this extent, the Corporation first recognizes that it cannot lose sight of the Saskatchewan marketplace, the market where its success developed and that represents approximately 83% of overall premium base. SGI CANADA strives to continue to grow profitable lines of business in Saskatchewan while maintaining its market share there.

Profitable underwriting is dependent on a disciplined underwriting approach and historically SGI CANADA has been very successful. Its success comes from two areas: (1) a large database of information in its underwriting system that allows it to properly assess risks, and (2) committed and experienced employees and brokers. As well, effective utilization of reinsurance has been important as it allows the Corporation to write additional business without having to increase its capital base. Reinsurance also sets a maximum dollar limit on exposure to a claim or on a series of claims occurring from a common incident or catastrophe. As illustrated on page 23, over the past 10 years, the Corporation's average return on equity and combined ratio have been better than the industry average.

SGI CANADA uses a number of key performance indicators in its Balanced Scorecard to monitor the above initiatives to ensure that it is on course with its strategies:

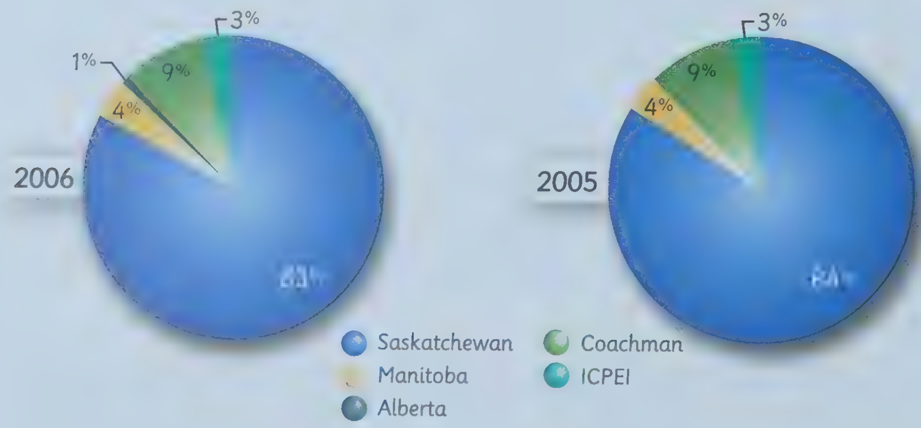
Measure	2006 Target	2006 Results	2007 Target
Percentage of business outside Saskatchewan	19% of direct premiums written from out-of-province	○ 17% of direct premiums written were from out-of-province	21% of direct premiums written from out-of-province
Net Risk Ratio (consolidated entity)	2.0	● 1.9	2.0
Minimum Capital Test (consolidated entity)	Be at the industry average	● 271%	Be at the industry average
Combined ratio (consolidated entity)	Less than 100%	● 91%	Less than 100%
Investment portfolio return	Outperform the investment policy benchmark return	● 7.7%	Outperform the investment policy benchmark return
Return on Equity (consolidated entity)	Be in the top quartile of pre-tax ROE for P&C industry	● 35%	Be in the top quartile of ROE's for P&C industry

● achieved ○ did not achieve

Percentage of Business Outside Saskatchewan

The percentage of business outside Saskatchewan measures the Corporation's success in diversifying its operations. The following chart indicates the percentage of business by province based on direct premiums written (excluding Facility Association participation):

Direct Premiums Written



SGI CANADA did not meet its target of 19% in 2006, largely due to entering the Alberta market later than planned and stronger growth in the Saskatchewan market than anticipated. However, it increased its percentage of business outside Saskatchewan by approximately 1%, from 16% to 17%, a result of Alberta

operations beginning in June 2006 and contributing $2,515,000 in net premiums earned during the year. Relative to its Saskatchewan operations, the Corporation maintained its positions in all other provinces.

The Corporation's target for 2007 is to have 21% of business from outside Saskatchewan. This is a significant increase from the 2006 results, however, SGI CANADA expects to see growth during 2007 in Alberta, which was only writing business for half of 2006, as well as from the Maritimes, where it commenced operations in Nova Scotia late in 2005 and expects operations to continue to grow in both Nova Scotia and New Brunswick. Steady growth from Ontario operations is also anticipated.

Net Risk Ratio

The Net Risk Ratio (NRR) is an indicator of the financial strength of a company in relation to the insurance business that it retains after reinsurance. It is calculated as the ratio of net premiums written to ending equity. The regulatory maximum is 3.0 which means a company can have up to three times more in net premiums written compared to equity. A lower ratio indicates that a company's financial resources would be better able to withstand an adverse underwriting result. Generally in the industry, an NRR of 2.0 is considered to represent a healthy capital position and is used as the target in SGI CANADA's Balanced Scorecard. While 2006 industry results are not currently available, industry average NRR at December 31, 2005 was 1.4.

The following table indicates the NRR by operating segment:

Company	December 31, 2006	December 31, 2005
SGI CANADA (consolidated)	1.9	2.0
SGI CANADA Insurance Services Ltd. (consolidated)	0.7	0.9
Coachman	0.9	1.5
ICPEI	1.1	1.2

The above table indicates that the Corporation's consolidated NRR is on target at the end of 2006. The NRR is below 2.0 for all operating segments outside Saskatchewan. This indicates good financial strength at the end of 2006 and is consistent with the results of the Minimum Capital Test (MCT) as discussed below. The Balanced Scorecard objective for the NRR measure remains at 2.0 for 2007.

Minimum Capital Test

The Minimum Capital Test (MCT) is a regulatory measure used to assess a company's financial strength. The MCT is a risk-based capital adequacy framework that assesses the riskiness of assets, policy liabilities and off-balance sheet exposures by applying varying factors. From these calculations comes a ratio of capital available to capital required. The regulatory minimum for this ratio is 150%. That is, capital available has to be at least 50% more than capital required. The 50% cushion provides comfort for insurers to cope with volatility in markets and economic conditions, innovations in the industry, consolidation trends, international developments and to provide for risks not explicitly addressed including those related to systems, data, fraud, legal and other risks. The industry average MCT at December 31, 2006 is not yet available, however was 240% at December 31, 2005.

The following table shows MCT results by legal entity:

Company	December 31, 2006	December 31, 2005
SGI CANADA (consolidated)	271%	255%
SGI CANADA Insurance Services Ltd. (consolidated)	349%	312%
Coachman	282%	175%
ICPEI	386%	417%

The table on the previous page indicates that all companies have a strong MCT at the end of 2006, and a higher MCT than the 2005 industry average. As well, all companies are exceeding the regulatory requirement of 150%.

The strong MCT scores indicate that SGI CANADA is well capitalized. SGI CANADA Insurance Services Ltd.'s improved MCT indicates that it is adequately capitalized to support the Corporation's expansion plans for Alberta, Ontario and the Maritimes.

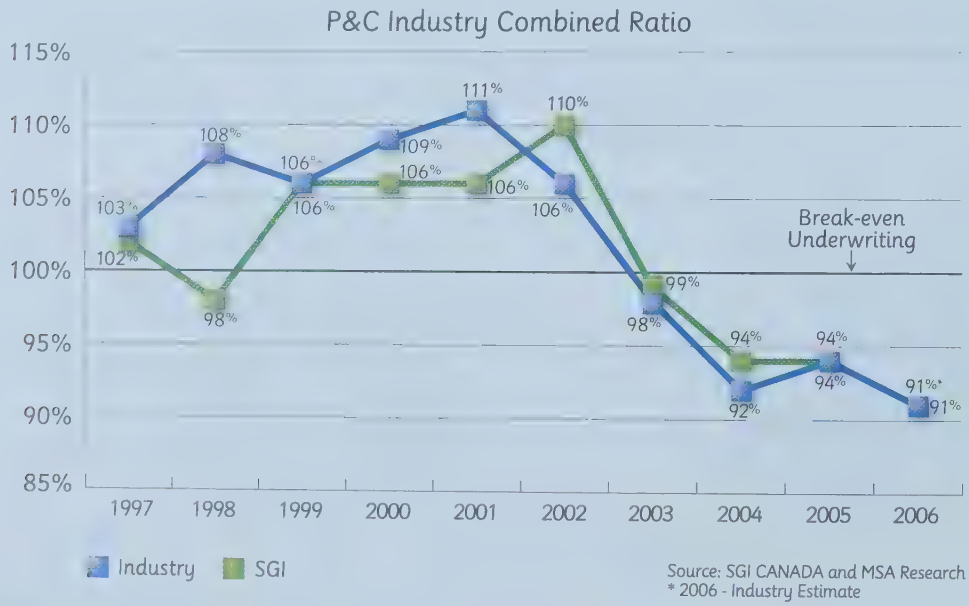
Coachman experienced a significant improvement in its MCT during 2006, a result of the $10,352,000 net profit earned during the year, which directly improves the company's capital position. Consequently, SGI CANADA Insurance Services Ltd. also experienced an improvement in its consolidated MCT.

For 2007, the target again is for each legal entity of the Corporation to have an MCT at the average of the industry.

Combined Ratio

This ratio is a key profitability measure for the Corporation. It measures the underwriting profit or loss for a company for a period of time. The combined ratio is calculated as total expenses (claims and other expenses, excluding income taxes and minority interest) divided by net premiums earned. Insurance companies attempt to achieve a ratio of less than 100%, which represents an underwriting profit.

Prior to 2003, the combined ratio for the P&C industry had exceeded 100% as noted in the following chart. With the exceptions of 2002, 2003 and 2004, SGI CANADA has maintained a combined ratio the same as, or lower than, the industry average in each of the last 10 years. The Corporation's average combined ratio over the period 1997 - 2006 is 101% compared to 102% for the industry overall.



Source: SGI CANADA and MSA Research
* 2006 - Industry Estimate

SGI CANADA's consolidated combined ratio for 2006 was 91%, which is a 3% improvement over 2005. It has exceeded its target of being lower than 100% and in doing so has generated a profit from underwriting activities for the year. This is the fourth consecutive year that SGI CANADA has achieved a profit from its core activity of underwriting insurable risks and 2006 represents the largest underwriting profit in SGI CANADA's

history. The details of SGI CANADA's results of operations and how it achieved an exceptional underwriting profit in 2006 are discussed in the following section, 2006 Results.

The 2007 target continues to be a consolidated combined ratio below 100%.

Investment Portfolio Return

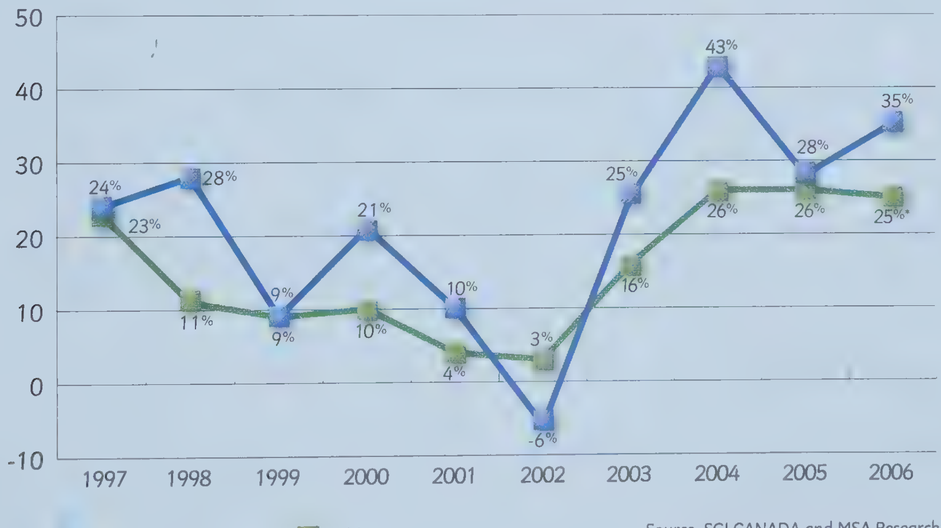
SGI CANADA's investment strategy is based on prudence, regulatory guidelines and claim settlement patterns with a view to maximizing long-term returns utilizing a conservative investment portfolio. Its performance target is to achieve a market value based rate of return superior to the rate of return earned on a benchmark portfolio. The benchmark portfolio is based on capital market index returns weighted consistent with the Corporation's investment portfolio asset mix. The rate of return is measured over a four-year cycle. This longer-term measure has greater relevance and lower volatility than a one-year measurement. Over the period 2003 to 2006, the portfolio averaged an annual return of 7.7%, exceeding the benchmark portfolio average annual return of 7.4%.

The 2007 target continues to be to outperform the investment policy benchmark portfolio return.

Return on Equity

Return on Equity (ROE) indicates the annual return on the investment made by SGI CANADA's shareholder. It is calculated as the ratio of income before income taxes to the average equity for the year. The Corporation targets consolidated pre-tax ROE for each year to be in the top quartile of the Canadian P&C industry.

SGI CANADA Consolidated Pre-Tax ROE



Source: SGI CANADA and MSA Research
* 2006 - Industry Estimate

The industry pre-tax ROE for the year is estimated to be 25.1% based on data available to the end of the third quarter of 2006, the most recent time period available. For the year ended December 31, 2006, SGI CANADA's consolidated pre-tax ROE was 35%, 10% higher than the projected industry average. The Corporation's 10-year average ROE is 21.6% while the industry averaged 15.2% for the same time period.

While SGI CANADA has generally been earning an above average ROE, the Corporation understands that it won't be able to exceed the industry every year, such as can be seen in 1997 and 2002. However, continued geographic diversification will help the Corporation limit its insurance risk in any one geographic area allowing the company to maintain a strong ROE overall at the same time as it may be experiencing high claim costs in certain geographical areas.

The target for 2007 continues to be that consolidated ROE will be in the top quartile for P&C insurers in Canada.

Customer

Another area of strategic focus is the customer. In addition to policyholders, SGI CANADA considers its customers to be the independent insurance brokers it partners with to sell its products. The Corporation supports them by providing underwriting expertise and self-service capabilities through its broker web interfaces. SGI CANADA works closely with its brokers to obtain input and advice on the changing needs of policyholders.

Claims handling is completed internally as SGI CANADA is committed to providing high levels of customer service. This is based on the belief that personal service in handling claims results in better service to the policyholder and better control over claim costs.

SGI CANADA uses a number of key performance indicators in its Balanced Scorecard to monitor customer initiatives to ensure it is on course with its strategies and in meeting the needs of both its brokers and policyholders:

Measure	2006 Target	2006 Results	2007 Target
Broker satisfaction survey - Saskatchewan	90% satisfaction level	● 95% satisfaction level	90% satisfaction level
Broker satisfaction survey - outside of Saskatchewan	90% satisfaction level	● 91% satisfaction level	90% satisfaction level
Saskatchewan claims customer survey	94% satisfaction level	○ 93% satisfaction level	94% satisfaction level

● achieved ○ did not achieve

Satisfaction Surveys - Brokers and Claimants

SGI CANADA conducts an annual survey in December with its brokers to determine the level of satisfaction they have with the services the Corporation provides to them. It strives for at least 90% of Saskatchewan and out-of-province brokers rating SGI CANADA the same or better than the competition. For 2006, SGI CANADA achieved its target with a 95% satisfaction rating from Saskatchewan brokers and a 91% satisfaction rating from out-of-province brokers. Brokers from Ontario and Manitoba were surveyed during 2006. The target for 2007 continues to be a 90% broker satisfaction level in all provinces that it operates.

The Corporation also conducts semi-annual surveys with claims customers to ensure it is meeting their needs. The target is a 94% approval rating from Saskatchewan claims customers. The latest survey results indicated a 93% satisfaction level, a 2% improvement over 2005. While this improvement is positive, it is still slightly below our target of 94%.

The target for 2007 remains a 94% satisfaction level and the Corporation is working hard to achieve it.

People

SGI CANADA's People strategies for 2006 focused on three main areas: becoming a high performance organization, employee engagement, and youth and aboriginal employees.

High Performance Organization

SGI CANADA places a great deal of importance on the continual education and training of its employees. Both technical and customer service training are emphasized. Providing these tools to employees leads to high-value customer service from employees who have the expertise to properly underwrite risks and adjust claims. Training is evaluated on an ongoing basis to ensure it provides employees with the enhanced skills required for them to help in achieving the Corporation's vision.

Operations in provinces outside Saskatchewan also benefit employees at SGI CANADA, as they allow them to add to their expertise in the insurance industry by gaining experience in other markets. In turn, having employees with a high level of knowledge and experience is beneficial to the Corporation. In 2006, the targets of having all new front-line staff receive customer experience training and spending on average $500 of training dollars per employee were achieved.

Employee Engagement

During 2006, the President's Employee Engagement Team (PEET) was developed to establish long-term goals for employee engagement for the Corporation. Based on the results of the 2005 employee survey, PEET released its report and recommendations during 2006 and began working with key groups in the Corporation to implement its recommendations. The target for 2007 is to continue to implement initiatives which build employee engagement.

Youth and Aboriginal Employees

Provincial and corporate demographics demonstrate the need to recruit young people and Aboriginal people. In addition, SGI strives to meet additional goals to help it achieve a truly representative workforce. SGI has established targets for all designated groups, including women in under-represented categories, Aboriginal, people with disabilities, visible minorities as well as youth. Our results in these areas are good, exceeding all our targets except for people with disabilities. To continue improving towards a truly representative workforce, the Corporation has established a target for new hires who are designated group members, which we were successful in meeting in 2006 and continues as a target in 2007.

The key performance indicators in the Balanced Scorecard to monitor these initiatives are:

Measure	2006 Target	2006 Results	2007 Target
Front-line staff receive customer experience training	All new front-line staff receive customer experience training	● 100% front-line staff have been trained	All new front-line staff receive customer experience training
Training dollars per employee	$500	● $1,219 spent per employee	$600
Employee engagement	Implement action plan from employee survey	● Action plan has been developed and initiatives are being implemented	Implement President's Employee Engagement Team (PEET) Initiatives.
New hires who are designated group members	25%	● 30%	25%

● achieved ○ did not achieve

Business Technologies

A common pillar supporting all corporate strategies and initiatives is business technologies. The Corporation needs its computer systems available in order to operate its business. If these systems were unavailable for a significant amount of time, the business would suffer. To reduce the amount of potential down time, the Corporation has an agreement with a related party that provides alternative computing services in the event its systems were unavailable for a significant amount of time.

The key performance indicator in the Balanced Scorecard to monitor the above initiative is:

Measure	2006 Target	2006 Results	2007 Target
Availability of business systems	99.5% of designated hours of operation	● 99.6% of designated hours of operation	99.5% of designated hours of operation

● achieved ○ did not achieve

Availability of Business Systems

This measures SGI CANADA's success in having its computer business systems available for use by staff and brokers during specific hours of the day and for specific days of the week. For 2006, SGI exceeded its target of 99.5% availability for use. The target for 2007 is the same as 2006 and reflects the importance to our operations of maintaining the availability of our computer systems.

CAPABILITY TO EXECUTE STRATEGIES

Fundamental to the capability to execute corporate strategies, manage key performance drivers and deliver results are the Corporation's employees, brokers, technology and financial capital. They are discussed further below:

Employees

SGI CANADA's management team is experienced and knowledgeable about the Canadian P&C insurance market. Many employees are long term, with an average term of 17 years of employment, and staff turnover rate for the last five years has averaged 4%. Due to this long tenure and low turnover, the Corporation has significant expertise in the core areas of its business, underwriting and claims handling, as well as within its support areas. This expertise has contributed to SGI CANADA's superior loss ratio and combined ratio in the Saskatchewan market compared to the insurance industry overall. This expertise is also crucial to our success in markets outside Saskatchewan. Maintaining this expertise is key to meeting the challenges that will present themselves in the future.

SGI CANADA is projecting a significant level of retirements in the near future as a large portion of its workforce reaches retirement age. In fact, over 486 employees are expected to retire, or be eligible for retirement, by 2015. The challenge is to recruit and retain the best people to ensure the longevity, growth and maintenance of SGI CANADA's competitive position for the future. The Corporation is transitioning its succession plan to a workforce-planning model that will include Aboriginal employment, youth employment, management development and expanded performance management strategies. This model will assist in transitioning expertise as retirements occur.

The Corporation and Saskatchewan Insurance, Office and Professional Employees' Union, Local 397 (COPE 397) signed a three-year Collective Bargaining Agreement (CBA), running from January 1, 2004 to December 31, 2006, in June 2005. The CBA covers the majority of non-management staff employed by the Corporation. The Corporation has not had a work stoppage since 1948 and it will continue to work with COPE 397 to ensure that this record continues into the future.

Brokers

SGI CANADA sells its products through a network of 277 independent brokers throughout Saskatchewan and 197 brokers throughout the rest of Canada. In order to continue delivering insurance products that customers desire, SGI CANADA works closely with its brokers to obtain input and advice on the changing needs of customers. With the assistance of its brokers, SGI CANADA is able to take a lead in delivering innovative insurance products to its customers.

SGI CANADA's brokers are well known in the communities in which they operate and they actively promote the Corporation's products and services. To support its brokers, the Corporation is continually enhancing its broker web interfaces to make it easier for them to promote our products and to provide them with the self-service capabilities they have requested. The Corporation provides other services to the brokers who sell its policies to ensure a strong commitment between them and SGI CANADA. This business model has brought the Corporation success in seven different markets in Canada and it will continue to market its products this way, building its broker relationships into the future.

Technology and Systems

SGI CANADA relies on its technology and systems to maintain its in-house underwriting system. Its general insurance system is flexible and can adapt to the changing competitive environment that SGI CANADA operates in. The Corporation has developed a large database of information in its underwriting system that provides a competitive advantage in assessing the risk. Management reporting systems are utilized to ensure management receives timely information regarding operations and to provide complete and accurate reporting to its stakeholders and regulators. The Corporation monitors and responds to changes in technology to ensure that key areas are upgraded in a timely manner.

Based on feedback from staff and brokers, SGI CANADA redesigned its billing system, a project which was completed and implemented during 2006. The previous system had reached the end of its life cycle; some processes had reached a point where further development was no longer cost effective or prudent. The new billing system streamlines a number of existing functions; provides revised broker billing statements that are easy to read; and offers flexible withdrawal dates for customers utilizing pre-authorized chequing. The new billing system is based on industry best practices and billing standards, and a technological architecture that will allow it to remain adaptable and flexible to future business needs. It demonstrates the Corporation's commitment to maintaining technology which will allow SGI CANADA, and its brokers, to be competitive in its markets.

Capital and Liquidity

Adequate capitalization is crucial for insurers competing in the P&C insurance market in Canada. Not only is it important to ensure adequate funding is available to pay policyholder claims, but it allows a company to be flexible in its product offering mix in the fiercely competitive marketplace. In addition, regulators have certain capital requirements that must be met in order to sell P&C insurance in each province. Without adequate capitalization, SGI CANADA would not be capable of meeting its out-of-province growth targets.

The Corporation's main sources of capital are retained earnings and cash injections in the form of equity advances from its parent, CIC. These equity advances form the Corporation's equity capitalization. There

have been no new equity advances to SGI from its parent during 2006. As well, there have been no changes to the capital in the Corporation's subsidiaries during 2006. As SGI and each of its subsidiaries have been profitable during 2006, retained earnings have grown which has contributed to improved capitalization within each subsidiary.

In Canada, P&C insurers are regulated by either the Office of the Superintendent of Financial Institutions or provincial regulators. The regulators require insurers to maintain a level of capital sufficient to achieve a target of 150% of a minimum capital test. As discussed in *Strategic Direction*, SGI CANADA uses this test, as well as the net risk ratio, to assess its capital adequacy. The Corporation believes SGI CANADA and each of its subsidiaries are adequately capitalized to meet capital targets as well as to achieve targets for premium growth outside Saskatchewan for the next five years.

Financial liquidity represents the ability of SGI CANADA's companies to fund future operations, pay claims in a timely manner and grow. A main indicator of liquidity is the cash flow generated from operating activities. This is a Canadian generally accepted accounting principles (GAAP) measurement and is reported on the consolidated statement of cash flows. For 2006, SGI CANADA generated consolidated operating cash flows of over $50 million. For over 16 years, the Corporation has consistently generated cash from its operations. This cash flow is invested to meet future cash flow requirements of the Corporation's claims liabilities and is also used to meet its dividend requirements to its parent, CIC.

The dividend policy requires that between 65% and 90% of net income be paid to CIC in the form of a dividend (2006 and 2005 - 65%). During the current year, the total dividend was $33,866,000 (2005 - $22,880,000). This represents a 48% increase over 2005 and the largest dividend SGI CANADA has paid to CIC in the Corporation's history. At the same time, the Corporation is maintaining adequate capital to meet its capital targets and its financial obligations as they come due. For cash flow that the Corporation retains, legislation requires it to follow the same investment criteria that federally regulated P&C companies must follow. This means the majority of the Corporation's investments are in liquid securities that can be used to satisfy financial commitments in a timely manner. The majority of the investment portfolio is in treasury bills and highly liquid bonds and debentures issued or guaranteed by Canadian governments. The Corporation also invests in corporate bonds, mortgages, publicly-traded North American equities and a non-North American equity pooled fund.

2006 FINANCIAL RESULTS

Quarterly Consolidated Financial Highlights

The following table highlights quarter over quarter results for the Corporation:

($ in 000's)	2006					2005				
	Q4	Q3	Q2	Q1	*Year*	Q4	Q3	Q2	Q1	*Year*
Net premiums earned	75,873	73,310	71,391	70,233	**290,807**	72,212	70,740	69,592	68,605	**281,149**
Claims incurred	39,212	49,825	36,128	31,905	**157,070**	33,138	46,679	50,161	32,485	**162,463**
Net income	14,706	4,773	12,940	19,682	**52,101**	10,035	4,989	448	19,728	**35,200**
Cash flow from (used in) operations	25,117	21,279	14,462	(10,265)	**50,593**	17,381	12,805	22,178	1,767	**54,131**
Investments	444,464	430,368	399,055	404,383		400,071	396,223	363,614	351,523	
Provision for unpaid claims	263,514	258,179	245,485	246,980		254,805	257,122	250,036	234,501	

The following points are intended to assist the reader in analyzing trends in the quarterly financial highlights for 2006:

- Net premiums earned increased consistently each quarter, as can be seen in both 2006 and 2005.
- Claims incurred were abnormally high in Q2 of 2005 due to severe summer storms and flooding events that occurred in Saskatchewan and Manitoba.
- Quarter over quarter, the Corporation generally generates positive cash flows from operations. Any excess cash is invested which is reflected in increasing investment levels. In Q1 of 2006, negative cash flow occurred as a result of higher payments for claims from the 2005 summer storms, premium taxes, and general accounts payable.

For the Three Months Ended December 31, 2006

Since 2004, SGI CANADA has been preparing public quarterly financial reports. These reports are available on its website at www.sgicanada.ca. The following is the Corporation's analysis of the fourth quarter of 2006:

SGI CANADA recorded a consolidated net income of $14,706,000 for the fourth quarter of 2006 (2005 - $10,035,000), a 47% improvement from 2005. The increase in income is attributable to profits earned from operations outside Saskatchewan, with a fourth quarter out-of-province profit of $6,587,000 marking a significant improvement over a $1,500,000 out-of-province loss in the fourth quarter of 2005. The improvement in out-of-province results was primarily attributable to Ontario auto business.

Net premiums earned in the fourth quarter 2006 increased $3,661,000 (5.1%) from the fourth quarter of 2005. The increase in premium earnings was mainly attributable to growth in the Saskatchewan premium base.

Claims incurred were $39,212,000 for the fourth quarter of 2006, $6,074,000 or 18% higher than 2005. The primary contributor to the increase was Saskatchewan claim costs, which were $37,969,000 for the quarter, $6,898,000 higher than 2005 ($31,071,000). Saskatchewan claim costs increased during the fourth quarter primarily due to increased reserves related to prior-year liability claim development.

Other expenses for the fourth quarter of 2006, excluding claims incurred, are $28,532,000, $2,165,000 more than the fourth quarter in 2005. The majority of the increase relates to commissions and premium taxes, which corresponds with the growth in premiums. Commissions and premium taxes for the quarter totalled $19,469,000 (2005 - $17,963,000).

A $1,588,000 million loss related to development on a service agreement in Coachman was recorded in the fourth quarter (2005 - $9,705,000) and is discussed in the following section.

For the Year Ended December 31, 2006

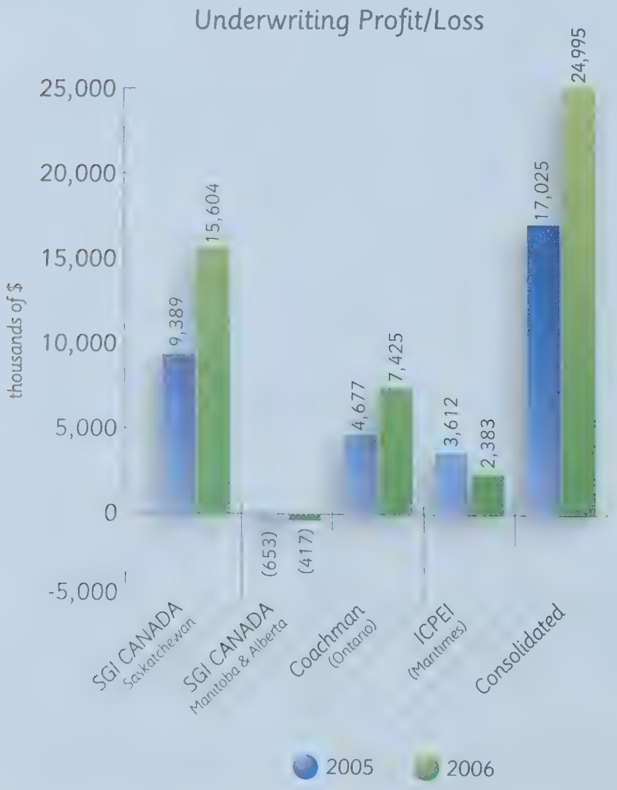
Consolidated Earnings

Overview of Operations

SGI CANADA posted a consolidated net income of $52,100,000 in 2006, a significant $16,901,000 improvement over the 2005 net income of $35,200,000. The 2006 profit is the largest in SGI CANADA's history. The previous profit benchmark was $41,684,000 set in 2004. The improvement in 2006 profit was a combination of lower Saskatchewan summer storm costs, combined with a record out-of-province profit during 2006. All out-of-province operating segments were profitable again in 2006, returning a $13,071,000 profit (2005 - $3,595,000), largely on the strength of strong automobile claim results in Ontario.

Operating Segment	2006	% of profit	2005	% of profit
SGI CANADA - Saskatchewan	$39,030	75%	$31,605	90%
SGI CANADA - Manitoba	856	1%	344	1%
SGI CANADA - Alberta	349	1%	-	-
Coachman (Ontario)	10,352	20%	1,163	3%
ICPEI (Maritimes)*	1,514	3%	2,088	6%
Net Income	**$52,101**		**$35,200**	

* ICPEI income net of 24.9% minority interest



The $24,995,000 consolidated underwriting income generated in 2006 is also a record for SGI CANADA. It represents a $7,970,000 improvement from the 2005 underwriting profit of $17,025,000, which was the highest underwriting profit achieved prior to this year. The table to the left illustrates the Corporation's underwriting profit by operating segment. The record underwriting profit in 2006 is a result of strong underwriting results from Saskatchewan, Coachman and ICPEI, while Manitoba and Alberta operations suffered a small underwriting loss during the year.

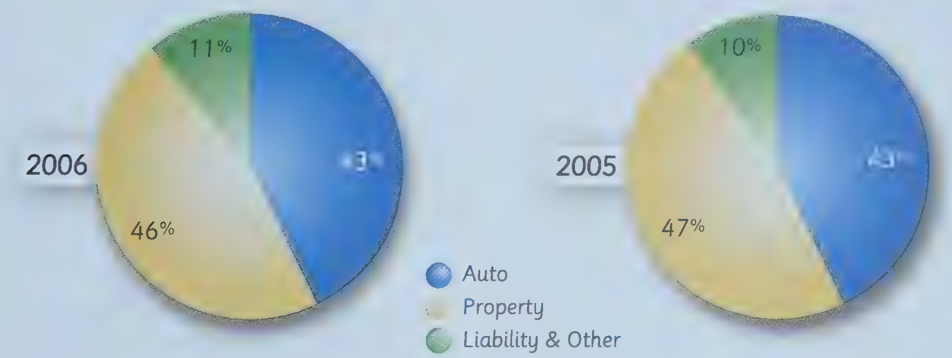
The 2006 results are a positive indication that the Corporation's plan of diversifying beyond the borders of Saskatchewan is working. While its significant market share in Saskatchewan means that the majority of its profit remains from Saskatchewan operations, an increasing proportion of the overall net income has been generated from out-of-province operations in 2006.

Net premiums written

In 2006, premiums written totalled $301,184,000 representing a $14,800,000 or 5% increase from the prior year. The majority of this increase was due to higher premiums written in the Saskatchewan operations of $11,431,000 combined with a $3,369,000 increase in premiums written from out-of-province operations. The majority of the increase in out-of-province premiums written was a result of Alberta operations beginning in late June 2006 and contributing $2,515,000 in net premiums written during the year.

On a line of business basis, at a consolidated level, the Corporation has maintained its split of business of approximately 46% property, 43% auto and 11% liability and other, as demonstrated in the table below:

Net Premiums Written by Line of Business

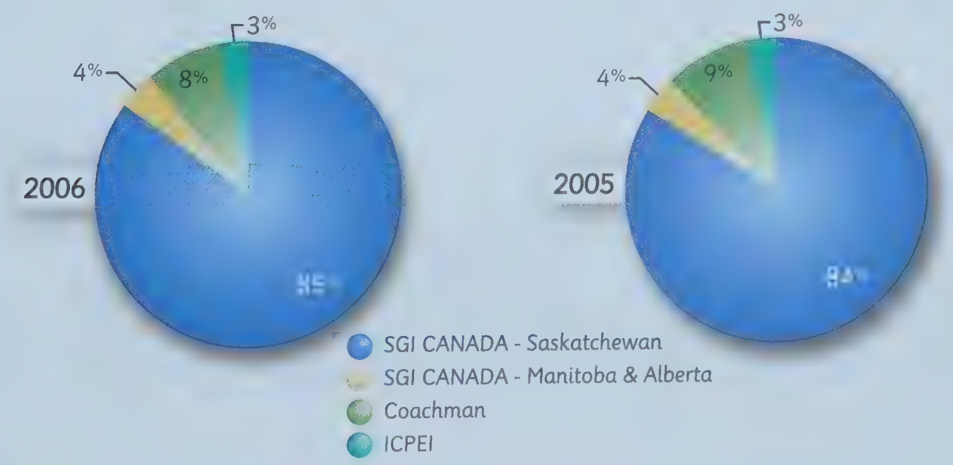


Net premiums earned

Net premiums earned for 2006 increased by $9,658,000, or 3% compared to 2005. This increase is due to higher premiums earned from Saskatchewan operations than in the previous year.

Net premiums earned in 2006 from out-of-province operations decreased $1,172,000 compared to the prior year. The decline is due to lower auto premiums earned in Ontario. As well, while the Corporation wrote $2,515,000 of new business in Alberta during the second half of 2006, it only earned $607,000. The table below indicates that net premium earned by operating segment was consistent with the prior year, except for a 1% decline in the share represented by Ontario operations.

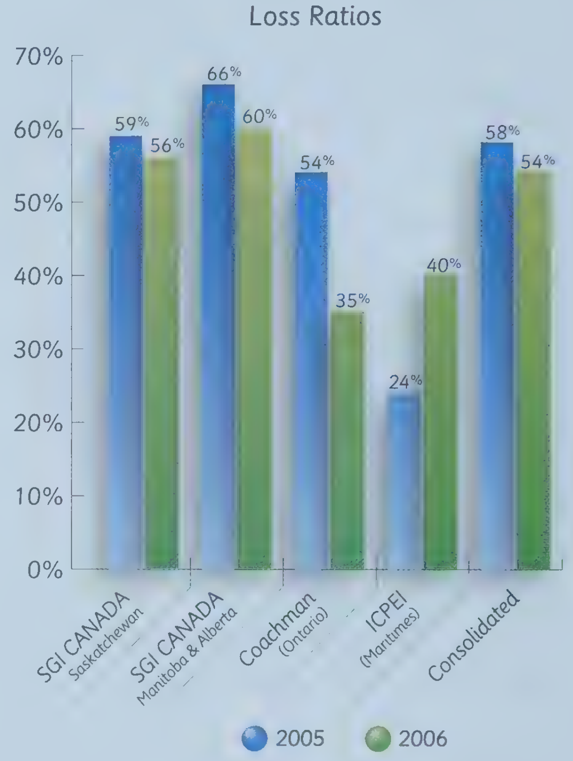
Net Premiums Earned by Operating Segment



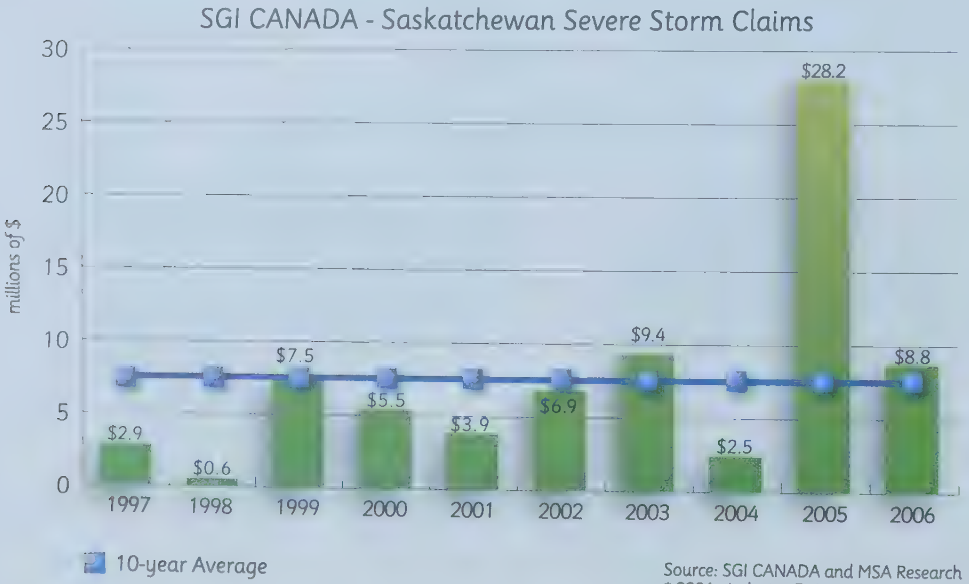
Claims incurred

Consolidated claim costs decreased by $5,393,000 million in 2006, totalling $157,070,000 for the year. The reduction is a combination of lower Saskatchewan claim costs from Saskatchewan operations, and positive prior year development experienced in the Coachman auto business. The consolidated loss ratio of 54% decreased 4% from 2005 (58%).

The following table (right) highlights the ratio of claim costs in relation to premiums earned, commonly known as loss ratio, for each operating segment:



Claim costs related to Saskatchewan operations decreased $1,047,000 from $139,354,000 in 2005 to $138,307,000 in 2006 and the loss ratio decreased from 59% to 56%. The decrease is primarily a reflection of lower summer storm costs in 2006 partially offset by an increase in commercial losses which were abnormally low in 2005. Summer storm activity in 2006 was significantly less than 2005, which was one of the most severe summer storm seasons on record in terms of claim costs. Storm activity in 2006 was $8,780,000, slightly higher than the 10-year average, while 2005 resulted in claim costs of $28,241,000. The following graph (below) shows the significance of storm claims over the past ten years:



Source: SGI CANADA and MSA Research
* 2006 - Industry Estimate

The loss ratio for Manitoba and Alberta operations decreased from 66% to 60% as a result of lower Manitoba storm related losses in 2006.

Ontario's loss ratio declined from 54% in 2005 to 35% in 2006. This significant improvement was primarily a factor of favourable prior year development. The actuarial valuation of the provision for unpaid claims in the current year indicated that reserves were too high, mostly related to automobile liability claims. This resulted in a decrease to claims incurred of $6,775,000.

In the Maritimes, ICPEI's loss ratio increased from 24% in 2005 to 40% in 2006, excellent results for both years. The increased loss ratio in 2006 is a result of an increase in the number of auto claims.

While Saskatchewan operations represent the largest proportion of the overall claim costs, strong loss ratios from Ontario and Maritime operations in 2006 result in the consolidated loss ratio being 2% better than the Saskatchewan operations loss ratio.

Expenses excluding claims incurred

Other expenses increased $6,620,000 from $102,719,000 in 2005 to $109,339,000 in 2006. Of the $6,620,000 increase, $3,761,000 relates to increased commissions and premium taxes. This increase is consistent with the growth in the premium base. The remaining $2,859,000 increase is from administration expenses. The 2006 administrative expense ratio has increased slightly to 12.0% compared to 11.4% in 2005. The growth is primarily attributable to increased salary and benefits costs resulting from an increased number of employees as well as general salary and benefit increases.

Investment earnings

Investment earnings for 2006 are $30,551,000 (2005 - $27,632,000), $2,919,000 more than for the prior year. The annualized consolidated return on the investment portfolio for 2006 was 6.1% compared to 6.2% for 2005, with returns from the various investment asset categories remaining relatively consistent with the prior year.

Loss from service agreement

During 1998, Coachman entered into a multi-year service agreement with Budget Car Rentals Toronto Limited (the rental company). This agreement was entered into prior to SGI CANADA's ownership of Coachman. The agreement allowed the rental company to self insure its fleet of vehicles for an annual fee using Coachman's name on the insurance policy. The rental company was responsible to make all claims payments and report quarterly to Coachman on the status of all claims and the provision for unpaid claims. As security to guarantee the provision for unpaid claims, the rental company was also required to maintain funds on deposit in an amount which would meet the funding of the outstanding liabilities related to this agreement.

As this was not considered part of Coachman's core operations, Coachman exited the agreement March 31, 2005. Subsequent to this, the rental company filed for voluntary receivership. A detailed review of the outstanding claims revealed that the provision for unpaid claims related to this agreement was $10,940,000. At December 31, 2005, the balance of funds held in the trust account maintained pursuant to the agreement was $1,235,000, which Coachman has collected during the year.

The provision for unpaid claims related to the agreement is determined by Coachman's external actuary. At December 31, 2006, the provision for unpaid claims related to the service agreement was $9,297,000. During 2006, further costs of $1,588,000 were charged to the loss from the service agreement.

This loss is unusual and does not relate to Coachman's normal insurance operations. As such, it has been recorded separately in the financial statements on the statement of operations and retained earnings, after underwriting profit and investment earnings. During the year, Coachman commenced legal action against certain parties involved to recover the shortfall related to this service agreement.

Income taxes

The Corporation's out-of-province legal entities, SGI CANADA Insurance Services Ltd., Coachman and ICPEI, are taxable entities, while SGI CANADA itself is not. On a consolidated basis, SGI CANADA has recorded a tax expense of $1,377,000 in 2006, compared to a tax recovery of $884,000 in 2005. The provision for current taxes is $1,718,000 in 2006 (2005 - $1,854,000) and represents current year taxes for ICPEI and SGI CANADA Insurance Services Ltd. Coachman has no current tax provision, as it is utilizing non-capital tax loss carryforwards resulting from losses in previous years. The Corporation also recorded a future tax recovery of $341,000 in 2006 compared to a future tax recovery of $2,738,000 in 2005. Of the consolidated future tax recovery, a $442,000 recovery was recorded from Coachman and a future tax expense of $101,000 was recorded from SGI CANADA Insurance Services Ltd.

Coachman has a significant net future tax asset, the majority of which relates to unused non-capital tax loss carryforwards. The $442,000 (2005 - $2,689,000) future tax recovery recognizes that Coachman is expected to be able to recover tax in coming years based on future expected profitable operations. The valuation of the Corporation's future tax asset is discussed further under the caption Consolidated Statement of Financial Position.

Consolidated Cash Resources

Operating activities

The Corporation continues to generate healthy cash flows from operations. In 2006, the Corporation generated $50,593,000 from operations, which is consistent with the cash generated from operations in 2005 of $54,131,000.

Investing activities

Excess cash from operations is invested in the investment portfolio of the applicable legal entity. The Corporation's investment manager actively trades its investments in the capital markets. Investment purchases of $651,482,000 were made, and proceeds from the sale of investments of $614,479,000 occurred during the year, resulting in net purchase of investments of $37,003,000.

Financing activities

Financing activities during the year relate solely to dividends paid during the year of $23,757,000. The dividend policy is to pay between 65% and 90% of the Corporation's consolidated net income for the year as a dividend to CIC (2006 and 2005 - 65%).

The primary sources of cash used to fund the net purchase of investments of $37,003,000 and the dividends paid during the year of $23,757,000, was the cash generated by operations of $50,593,000 and the decrease in cash and cash equivalents of $9,895,000.

Consolidated Statement of Financial Position

Cash

Cash and cash equivalents at December 31, 2006 is $24,054,000 (2004 - $33,949,000) a decrease of $9,895,000. The sources of the change in cash for the year are described in the above section Consolidated Cash Resources. Cash equivalents consist of treasury bills with a maturity of 90 days or less from the date of acquisition.

Accounts receivable

Accounts receivable increased during the year by $22,493,000, from $75,129,000 to $97,622,000. The increase is a result of increased financed premiums receivable from customers as well as the timing of investment sales and purchase activities at the end of 2006. Certain transactions entered into at year-end did not settle until after year-end, resulting in an accounts receivable. The timing of these transactions also impacted accounts payable, which increased to $34,696,000 in 2006 from $17,873,000 in 2005.

Future income taxes

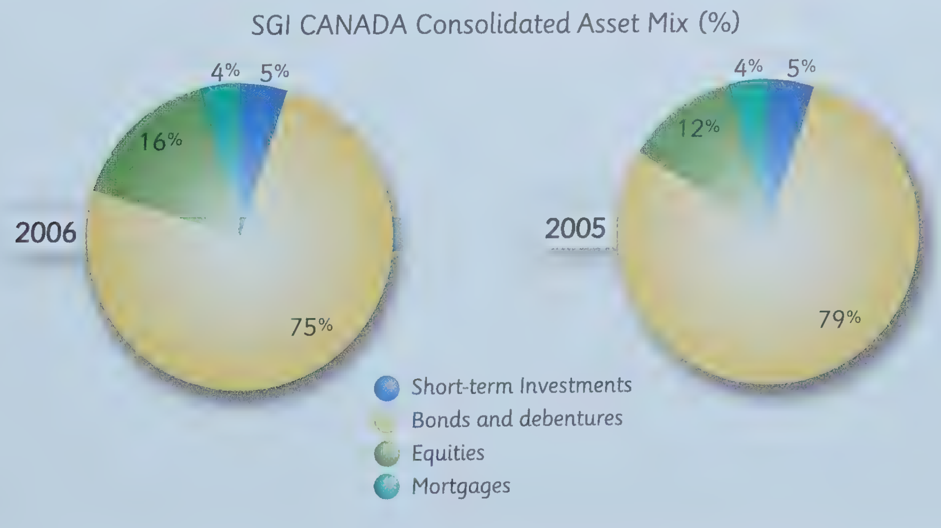
The Corporation, through its taxable subsidiaries, SGI CANADA Insurance Services Ltd., Coachman and ICPEI, records future tax assets and liabilities based on the results of its operations each year. Note 13 to the consolidated financial statements contains further details of these balances. At December 31, 2006, the consolidated financial statements have future tax assets of $6,748,000 ($4,927,000 relate to tax loss carry forwards of Coachman) and future tax liabilities of $1,702,000, resulting in a net future tax asset of $5,046,000. The Corporation, through the management of Coachman, has recorded a valuation allowance of $1,896,000 against future tax assets, resulting in a recorded future tax asset of $3,150,000.

Management is required to use judgment to assess the valuation allowance each year, based on guidance within Canadian GAAP regarding the likelihood of recovering the tax asset in the future. The amount of the valuation allowance has been determined using a methodology consistent with the prior year. The future tax asset has been recorded based on the fact that Coachman continues to see positive financial results from significant operational changes implemented four years ago, such as improved claims reserving practices, exiting unprofitable lines of business such as taxis, increasing the property line of business and eliminating unprofitable brokers. Management has taken a reasonably conservative approach by recognizing only $3,150,000 and maintaining a valuation allowance of $1,896,000 on remaining future tax assets.

Investments

SGI CANADA's investments are in short term investments, bonds and debentures, mortgages and equities. Equities consist of Canadian, U.S. and non-North American equities. The Corporation's subsidiaries hold their Canadian and U.S. equities through pooled equity funds, while the Corporation's non-North American equities are held through a pooled equity fund.

The following pie charts summarize the asset mix based on book values at December 31, 2006 and 2005:



The investment asset mix on a book value basis has increased during the year towards equities. This is primarily the result of investing a portion of SGI CANADA Insurance Services Ltd., Coachman and ICPEI's investment portfolios into equities during 2006. This change reflects the improved capitalization of each of the companies, and further diversifies their portfolios while attempting to maximize the overall rate of return from investments.

The book value of invested assets grew $66.3 million during the year as a result of cash flow generated by strong profits from operations used for investing activities as well as realized gains on the sale of investments during the year. Net unrealized gains at December 31, 2006 are $26,424,000 (2005 - $22,269,000) and primarily relate to equities.

Unearned premiums

At December 31, 2006, unearned premiums were $163,434,000 (2005 - $152,334,000), an increase of $11,100,000. Of the increase, 56% relates to premium growth from Saskatchewan, and 44% relates to out-of-province business. New writings in Alberta during the second half of 2006 were $2,515,000, of which $1,908,000 was unearned at December 31, 2006, and Coachman's unearned premium balance increased by $2,529,000, mostly related to automobile business.

Provision for unpaid claims

The December 31, 2006 provision for unpaid claims was $263,514,000 (2005 - $254,805,000) an increase of $8,709,000 from last year. The increase relates to current year reserve adjustments on Saskatchewan business, offset by positive prior-year development experienced in the subsidiaries in 2006.

This liability reflects the estimated ultimate costs of claims reported but not settled, along with claims incurred but not reported. The Corporation reports as an asset (unpaid claims recoverable from reinsurers) the portion of this liability that is recoverable from reinsurers. Unpaid claims recoverable from reinsurers increased by $4,858,000, such that net unpaid claims (the provision for unpaid claims less unpaid claims recoverable from reinsurers) has only increased $3,851,000 or 1.7% since 2005.

As discussed in the notes to the consolidated financial statements, the process to determine this liability is complex as it takes into consideration numerous variables that are subject to the outcome of future events. Any change in estimates is reflected as claims incurred on the Consolidated Statement of Operations.

Related-Party Transactions

The Corporation is related in terms of common ownership to all Government of Saskatchewan departments, agencies, boards, commissions, Crown corporations, and jointly controlled and significantly influenced corporations and enterprises. Transactions with these entities were entered into in the normal course of business and are settled at prevailing market prices under normal trade terms.

SGI CANADA is the administrator of the Saskatchewan Auto Fund on behalf of the Province of Saskatchewan. SGI CANADA incurs administrative and claim adjustment expenses on behalf of the Auto Fund which are charged to it.

The Corporation, as the lessor, has an interest in a capital lease in Prince Albert, Saskatchewan with the Department of Property Management, a provincial government department. This lease expires in April 2011. Further details on this lease are provided in Note 6 to the consolidated financial statements.

The Corporation has direct premiums that are brokered through Charlie Cooke Insurance Agency Ltd., pays claim adjusting fees to Atlantic Adjusting & Appraisals Ltd. and has premiums financed for policyholders by

Maritime Finance & Acceptance Corporation. These companies are affiliated with the minority shareholder of ICPEI, who is a member of ICPEI's senior management. The policies written and the claim adjusting expenses paid are routine operating transactions in the normal course of business.

One of the Corporation's directors is a partner in an organization that provided professional services to the Corporation. During the year, these services amounted to $189,000 (2005 - $71,000).

The transactions with these related parties are discussed in Note 16 to the audited consolidated financial statements.

Off-Balance Sheet Arrangements

SGI CANADA, in its normal course of operations, enters into certain transactions that are not required to be recorded on its statement of financial position - commonly referred to as the balance sheet. These items include litigation, structured settlements and a long-term telecommunications contract. These items are discussed below, as well as in Note 8 and 20 to the consolidated financial statements.

The Corporation, as is common in the P&C insurance industry, is subject to litigation arising in the normal course of its operations, primarily in claim settlements. SGI CANADA is of the opinion that current litigation will not have a material impact on its operations, financial position or cash flows.

Also, the Corporation and its subsidiaries, in the normal course of settling claims, settle some long-term disability claims by purchasing structured settlements (annuities) from various financial institutions for its claimants. This is a common practice in the P&C industry. The net present value of the scheduled payments at December 31, 2006 is $47,181,000 (2005 - $48,778,000). The Corporation provides a financial guarantee to the claimant in the event of default by the financial institution on the payment schedule to the claimant. No default has occurred in the past on these payment schedules and the Corporation considers the likelihood of such default as being extremely remote.

The Corporation has secured a long-term telecommunications contract with a related provincial Crown corporation that started in 2005 and is scheduled to end in 2009. At December 31, 2006, the remaining commitment under the contract is $3,713,000 (2005 - $4,958,000). Also, a subsidiary of the Corporation, Coachman, has a lease for its office premises expiring December 31, 2008 at an annual rent of $186,000.

CRITICAL ACCOUNTING ESTIMATES

This discussion and analysis of the Corporation's financial condition and results of operations are based upon its consolidated financial statements as presented in this annual report. These consolidated financial statements have been prepared in accordance with Canadian GAAP, as recommended by the Canadian Institute of Chartered Accountants. Significant accounting policies are contained in Note 2 to the consolidated financial statements. Certain of these policies involve critical accounting estimates because they require management to make particularly subjective or complex judgments about matters that are inherently uncertain and because of the likelihood that materially different amounts could be reported under different conditions or using different assumptions.

The Corporation has discussed the development, selection and application of its key accounting policies and the critical accounting estimates and assumptions they involve, with the Audit and Finance Committee of the Board of Directors, and the Audit and Finance Committee has reviewed the disclosures described in this section. The most significant critical accounting estimates involve the provision for unpaid claims, impairment of investments, reinsurance and income taxes.

Provision for unpaid claims

A provision for unpaid claims is maintained to cover the estimated ultimate liability for losses and loss adjustment expenses for reported claims and claims incurred but not yet reported (IBNR) as at the end of each accounting period. The initial provision is determined on the reported facts filed with the claim and then revised regularly, as more information on the claim becomes known. The provision does not represent the exact calculation of the liability owing to claimants, but is an estimate developed using Canadian accepted actuarial practices and Canadian insurance regulatory requirements. The estimate reflects an expectation of the ultimate cost of settlement and administration of claims. It involves an assessment based on the facts and circumstances of the events reported in the claim, the Corporation's experience with similar claims, historical trends involving claim payments, claim severity, the effect of inflation on reported and future claims, court decisions and the time frame anticipated to settle and pay the claim.

This provision is refined on a continual basis as prior fiscal year claims are settled and additional claims are reported and settled. There may be significant time delays from the occurrence of the insured event and when it is reported. If this occurs near the year-end date, estimates are made as to the value of these claims based on information known to the Corporation. As well, uncertainty exists for reported claims that are not settled, as all necessary information may not be available. Thus, with the level of uncertainty involved in the claim process until the final settlement occurs, current reserves may not be sufficient. As permitted by Canadian GAAP, the Corporation only discounts long-term disability claims included in this provision. Any adjustments to these estimates, both positive (a redundancy or excess) and negative (a deficiency) are included in the provision for unpaid claims and are reflected as claims incurred in the current year's Consolidated Statement of Operations.

Impairment of investments

The establishment of an impairment of an investment security requires a number of judgments and estimates. Management performs a quarterly analysis of investment holdings to determine if declines in market value of a particular investment are other than temporary. This analysis includes:

- identifying all security holdings in an unrealized loss position that have existed for at least six months;
- assessing if declines in market value are other than temporary for debt security holdings based on the investment grade credit rating from third-party security rating agencies; and,
- determining the necessary provision for declines in market value that are considered other than temporary based on the analysis performed.

Reinsurance

Reinsurance recoverables include amounts for expected recoveries related to claim liabilities, as well as the portion of the reinsurance premium that has not yet been earned. The cost of reinsurance is accounted for over the terms of the underlying reinsured policies using assumptions consistent with those used to account for the policies. Amounts recoverable from reinsurers are estimated in a manner consistent with claim and claim adjustment expense reserves and are reported in the consolidated statement of financial position. The ceding of insurance does not discharge the Corporation's primary liability to its insureds. An estimated allowance for doubtful accounts is recorded on the basis of periodic evaluations of balances due from reinsurers, reinsurer solvency, management's experience and current economic conditions.

Income taxes

The provision for income taxes is calculated based on the expected tax treatment of transactions recorded in the consolidated financial statements. In determining the provision for income taxes, the Corporation

interprets tax legislation in a variety of jurisdictions and makes assumptions about the expected timing of the reversal of future tax assets and liabilities and the valuation of future income tax assets, the most significant of which is unused non-capital tax loss carryforwards.

Management makes assumptions regarding the value of future tax assets using a valuation allowance. This allowance is based on management's assessment of whether it is more likely than not that the Corporation will utilize tax assets before they expire. This assessment is based on expected future earnings, tax rates, the amount of taxable income in future years and the timing of the reversal of future tax liabilities. The assessment of the valuation of future taxes in the current year is discussed in the above section Consolidated Statement of Financial Position.

UPCOMING CHANGES IN ANNOUNCED ACCOUNTING STANDARDS

The following is a summary of announced changes to Canadian accounting standards that management believes will have an impact on the consolidated financial reporting of the Corporation. This is not an exhaustive listing of all announced changes by the Canadian Institute of Chartered Accountants (CICA).

Section 3855, Financial Instruments - Recognition and Measurement

In January 2005, the CICA issued new standards for the recognition and measurement of financial instruments. Under the new standard, all financial instruments will be classified as one of the following: held to maturity, loans and receivables, held for trading or available for sale. Financial assets and liabilities held for trading will be measured at fair value with gains and losses recognized in net income. Financial assets held to maturity, loans and receivables and financial liabilities other than those held for trading, will be measured at amortized cost. Available for sale instruments will be measured at fair value with unrealized gains and losses recognized in other comprehensive income, a new component of Shareholders Equity discussed below.

The Corporation has assessed the impact of this accounting change on its consolidated financial statements. While the impact is expected to be far reaching, the most significant impact is expected to be related to the measurement of its investment portfolio assets, the majority of which Management has determined will be designated as available for sale. The change in accounting policy is effective January 1, 2007 and is anticipated to result in an increase to investment assets and other comprehensive income of approximately $26 million.

Section 1530, Comprehensive Income & Section 3251, Equity

This new accounting standard defines comprehensive income as the change in equity of an enterprise during a period from transactions and other events and circumstances from non-owner sources and requires a Consolidated Statement of Comprehensive Income be reported. Comprehensive income includes all changes in equity during a period except those resulting from investments by owners and distributions to owners. Other comprehensive income includes those revenues, expenses, gains and losses that are included in comprehensive income, but excluded from net income. Other comprehensive income includes unrealized gains or losses on financial assets classified as available for sale, unrealized foreign currency translation amounts arising from self-sustaining foreign operations, and changes in the fair value of cash flow hedging instruments. Section 3250, Equity, requires accumulated other comprehensive income be disclosed as a separate item within a company's equity.

The Corporation has assessed the impact of these accounting changes on its consolidated financial statements. The only transactions which the Corporation has which will be recorded through other

comprehensive income are related to those unrealized gains and losses on financial assets designated as available for sale. The change in accounting policy, effective January 1, 2007, will be recorded without restatement of prior years figures and is anticipated to result in an opening balance in 2007 in accumulated other comprehensive income of approximately $26 million.

RISK MANAGEMENT

Understanding and managing risk is important to the Corporation's success. Risks represent potential threats to meeting the objectives set forth by the Corporation and affect its ability to take advantage of opportunities as they present themselves. On a semi-annual basis, senior management assesses the risks by identifying, measuring and prioritizing them, based on their estimated likelihood of occurrence and severity of loss to the Corporation. This process yields a risk profile for the Corporation. Mitigation plans are developed to minimize the impact or likelihood of occurrence of the identified risks, based on their risk ranking. The corporate risk profile is reviewed, and input provided by the Audit and Finance Committee of the Board of Directors. The Corporation's Audit Services branch also uses the risk profile in developing its annual work plan.

The following are the main risks that the Corporation manages to reduce impact on its operations and profitability. It is not an exhaustive list of all risks the Corporation faces.

Claims reserve forecasting (or Reserve risk) represents the difficulty in forecasting claims that could lead to an inability to meet the liability for unpaid claims when they come due and inadequate claims liability estimates within financial results. The Corporation maintains a reserve to cover its liability for future payments on reported claims and an estimate for claims that have not yet been reported. These amounts are estimates and the ultimate payment on these claims may differ from the estimate.

The inability to meet claims obligations could lead to a loss of public confidence in the Corporation as well as far-reaching consequences such as the loss of policy renewals. Inaccurate claims liability estimates also leads to volatility in financial results. Detailed annual reviews of case reserves are conducted each year by the claims department. As well, an in-house actuarial unit monitors claims reserve adequacy throughout the year and undertakes actuarial valuations for the Corporation, and each of its subsidiaries, at least annually.

Underwriting risk results from a financial loss due to not properly pricing risks being insured. The Corporation reduces this risk by maintaining a large underwriting database to help assess risk, by employing valuable and experienced underwriters, by diversifying policies being issued (both geographically and by product line) and targeting for a combined ratio below 100%. The Corporation also utilizes its Actuarial Services unit to perform rating applications and analysis. Automobile policies are written after a review of the driving record of the policyholder, claims experience and type of vehicle being insured. Auto insurance pricing must be submitted for approval by the provincial regulator where the Corporation operates. These regulators may, notwithstanding the Corporation's detailed analysis, require changes to proposed rates. Property policies are based on a review of the type and physical condition of property, replacement value and claims experience. The Corporation will maintain its underwriting principles and will give up business when unprofitable pricing competition exists, but write more of that business once prices return to an acceptable level.

The volatility of out-of-province financial results, particularly those with a small policy base, will fluctuate based on claims activity. This will particularly be the case at the start-up stages of these operations. It is understood that it is not always possible for all segments or markets to be profitable each year. Still, the Corporation closely monitors and manages its expansion operations, including adhering to a disciplined underwriting

approach, to reduce the risk of poor operating results. Head office underwriting expertise and experience combined with staff with local market knowledge are used to ensure the Corporation obtains the desired type of business. The focus of expansion is on spreading risk by diversifying policies being issued geographically and by product line and increasing the profitable premium base in our business regions.

Legal and regulatory risk exists, especially where the Corporation's operations are regulated, being Alberta, Ontario and the Maritimes. In these jurisdictions, the Corporation may be subject to adverse rulings by the courts as a result of legal challenges to our existing coverages. The Corporation continues to keep abreast of market and regulatory changes in out-of-province markets and monitors legal challenges. Our auto insurance pricing must be submitted for approval by the provincial regulator in these provinces. These regulators may, notwithstanding the Corporation's detailed analysis, require changes to proposed rates.

Privacy management risk relates to the release or use of private information without proper authorization. The improper release of information could cause financial and reputational harm. To reduce this risk, the Corporation has assigned a Chief Privacy Officer and developed a privacy management framework that meets legislative requirements imposed by *The Freedom of Information and Protection of Privacy Act* (Saskatchewan) and other applicable privacy legislation. The framework ensures that policies and practices are in place to protect privacy and personal information maintained by the Corporation. It has controls that limit access to the data. All employees, including the Board of Directors, are subject to the Corporation's Code of Ethics and Conduct and its Information Technology policy. All employees are also required to take training in proper management of private information. As well, during 2006 a whistleblower hotline was implemented.

Third party or employee fraud risk exists and includes the commitment of fraudulent acts by claimants, as well as the risk of fraudulent activities by staff and other business partners. These and other illegal acts can have far-reaching financial implications for the business overall, resulting in harm to the corporate reputation and weakening customer confidence in the Corporation. The use of internal and external auditors is currently an existing mitigating factor. The Corporation continues to use and improve its audit services department, its special investigations unit, and its overall control systems to control fraudulent activities. A whistleblower hotline established during 2006 is also expected to mitigate this risk.

Risk to information systems involves the security of data from accidental or deliberate destruction and from outside intrusion. It also involves the security of corporate hardware from failure, destruction or theft, maintaining up-to-date versions of software/hardware along with keeping abreast of changes in information technology. The Corporation secures data using modern systems of access and protection along with regular backups. It has developed and regularly reviews a business continuity plan, which includes provision for an alternative computing services site for major applications that can be instantly activated if needed.

Reinsurance risk relates to a financial loss due to inadequate coverage, default or financial failure of a reinsurer. The Corporation reviews annually its reinsurance requirements to determine the type and amount required for sustaining operations. Reinsurers are selected based on their financial strength, coverage available to the Corporation and the cost. Due to the number of international disasters in the last five years, reinsurance has become more expensive but not cost prohibitive. The Corporation requires reinsurance to sustain and grow its operations. Reinsurance does not relieve the Corporation of its financial responsibilities to policyholders, but helps it to pay claims in the event of a catastrophic event. Reinsurance also allows the Corporation to diversify its insurance policy base.

Catastrophe exposure risk relates to losses arising from catastrophic events. With the Corporation having a significant portion of the Saskatchewan property insurance market, it is susceptible to large losses from major

storms in Saskatchewan. To contain this risk, the Corporation purchases catastrophe reinsurance protection that reduces the potential impact from major losses as a result of catastrophic events. While the Corporation has a heavier geographic concentration of risk than other major insurance companies in Canada, it is less susceptible than other insurance companies to catastrophes from earthquakes and hurricanes because of the location of its insurance business.

Investing risk relates to changes in interest rates, foreign currency and market values. Lower short-term interest rates impact the earnings of the investment fund used to pay claims and to finance future growth. Returns from capital markets, both domestic and foreign, are uncertain and will fluctuate from year to year. To reduce the impact of these fluctuations on investment portfolio earnings, the Corporation uses the services of investment managers. It also has a Statement of Investment Policies and Goals (SIP&G) that is reviewed annually by internal and external investment consultants and is approved annually by the Investment Committee of the Board of Directors. The Corporation does not use any derivative financial instruments to alter the effects of these market changes and fluctuations. The main goal of the SIP&G is an investment policy and strategy that is based on prudence, regulatory guidelines and claim settlement patterns with a view to maximizing long-term returns utilizing a conservative investment portfolio.

The investment managers follow guidelines established in the SIP&G which provide the investment managers the playbook for the asset mix within the portfolio regarding quality and quantity of debt, real estate and equity investments using a prudent person approach. The asset mix helps to reduce the impact of market value fluctuations by requiring investments in different pools and in domestic and foreign markets. Some of the investment limits for quantity and quality are based on legislative requirements in The Insurance Companies Act (Federal). The SIP&G also has rate of return standards for the portfolio and performance return measurement standards for the investment managers. Investment managers produce quarterly reports on the performance of assets under their management that are reviewed by corporate management and the Investment Committee of the Board of Directors.

Foreign currency exposure arises from the Corporation holding investments denominated in currencies other than the Canadian dollar. Fluctuations in the relative value of the Canadian dollar against foreign currencies result in a positive or negative effect on the fair value of investments. The Corporation manages foreign currency risk by limiting its holdings of foreign investments to a maximum of 14% of the market value of the entire investment portfolio.

OUTLOOK FOR 2007

2006 was a remarkable year for SGI CANADA as it realized the highest profit ever achieved by the Corporation. Of particular importance was the contribution that out-of-province operations provided to the overall profit at 25%. The Corporation has been focusing on expanding its business beyond Saskatchewan borders the last several years and it is encouraging that this effort is producing positive benefits for the Corporation. At the same time the Corporation maintained its strong Saskatchewan market share in partnership with its brokers.

With the Corporation's vision of becoming a leading national insurer, three new markets will be looked upon in 2007 as providing substantive growth opportunities for the Corporation. Alberta, New Brunswick and Nova Scotia are all markets that the Corporation has entered recently and are being positively received by our newly appointed brokers. Prior to entering these markets, detailed business plans were developed to ensure there was a common understanding between the Board of Directors and Management on the strategy for acquiring business in these new markets.

As the Corporation continues to grow in these new markets, additional staff are required to ensure that it can maintain high service levels to brokers, policyholders and claimants. Over the last several years a significant number of new positions have been required to address the growing volume of business and in 2007 this is expected to continue. As a result, several training initiatives are planned for staff in 2007 to ensure that new staff have adequate training in order to properly underwrite and support our insurance operations.

The demographics for SGI CANADA are similar to the rest of the country in that it has an aging working population getting ready for retirement. Therefore, it is critical to the long-term success of the Corporation that staff are adequately trained and ready to replace those employees retiring. The Corporation's succession planning process will continue to be an area of focus in 2007 to ensure the Corporation is well positioned with adequately trained and engaged employees.

The insurance industry recorded two of its worst years on record in 2001 and 2002, and responded by initiating substantive pricing and product changes in order to improve profitability. Accordingly, financial results began to improve and have been extremely strong the past two years. As is the case generally in this industry as insurance products achieve profitable levels, the pressure to obtain market share begins. While generally this would result in pricing pressures, this cycle has produced competition in providing customer service to the broker, new and enhanced technologies and flexible product offerings to obtain market share. As such, the targets for out-of-province market share will be a challenging goal for the Corporation within the current market cycle of the insurance industry.

While the industry has generally been experiencing below average claim costs over the past few years, industry experts suggest climate change will lead to more frequent catastrophic events. This is a risk that the Corporation faces in all operating jurisdictions, but specifically in Saskatchewan where we maintain a large portion of the property insurance market. Also, legal challenges to existing coverages in out-of-province jurisdictions, such as injury caps, could have a significant impact on the adequacy of unpaid claim reserves and ongoing claim costs. Changes to regulation and actions by regulators can result in difficulties in obtaining required rate increases impacting the Corporation's ability to profitably conduct business in certain jurisdictions. The Corporation is actively monitoring these issues and has considered them in its plans for 2007 and forward.

With the current conditions in the insurance market, in order to meet the Corporation's targets for out-of-province premium revenue and maintaining Saskatchewan market share, it will be extremely important to continue to provide outstanding customer service to brokers. The Corporation will be working on ensuring it has the staff in place that are ready to respond to these challenges. Having been through many market cycles over its long history, the Corporation is confident that it will be able to meet these challenges and capitalize on the opportunities that are now available.

Caution Regarding Forward-Looking Statements

Forward-looking statements include, among others, statements regarding SGI CANADA's objectives, strategies and capabilities to achieve them. These statements are not historical facts. Forward-looking statements are typically identified by words such as believe, expect, will, would, should, expect, may and could, or other comparable words. These statements involve risks and uncertainties, general and specific, which may cause actual results to differ materially from the expectations expressed in the forward-looking statements.

Forward-looking statements are based on estimates and assumptions made by the Corporation in light of its experience and perception of historical trends, current conditions and expected future developments, as well as other factors that it believes are appropriate in the circumstances. Many factors could cause actual results,

performance or achievements, or future events or developments, to differ materially from those expressed or implied by the forward-looking statements. Some of these factors that could cause such differences are discussed under the section on Risk Management in this MD&A. The Risk Management section is not a comprehensive list of all possible factors, and other factors could also adversely affect the Corporation's results.

SGI CANADA deems that the assumptions built into the forward-looking statements are plausible; however, all factors should be considered carefully when making decisions with respect to the Corporation. Undue reliance should not be placed on the Corporation's forward-looking statements which only apply as of the date of this MD&A document. The Corporation does not undertake to update any forward-looking statements that may be made from time to time by or on its behalf.

RESPONSIBILITY *for financial statements*

The consolidated financial statements are the responsibility of Management and have been prepared in conformity with accounting principles generally accepted in Canada. In the opinion of Management, the consolidated financial statements fairly reflect the financial position, results of operations and cash flows of Saskatchewan Government Insurance (the Corporation) within reasonable limits of materiality.

Preparation of financial information is an integral part of Management's broader responsibilities for the ongoing operations of the Corporation. Management maintains an extensive system of internal accounting controls to ensure that transactions are accurately recorded on a timely basis, are properly approved and result in reliable financial statements. The adequacy and operation of the control systems are monitored on an ongoing basis by an internal audit department.

An actuary has been appointed by the Corporation to carry out a valuation of the policy liabilities in accordance with accepted actuarial practice and common Canadian insurance regulatory requirements. The policy liabilities consist of a provision for unpaid claim and adjustment expenses on the earned portion of policies and of future obligations on the unearned portion of policies. In performing this valuation, the actuary makes assumptions as to future rates of claim frequency and severity, inflation, reinsurance recoveries, expenses and other contingencies, taking into consideration the circumstances of the Corporation and the nature of the insurance policies. The actuary also makes use of Management information provided by the Corporation and the work of the external auditors in verifying the data used in the valuation.

The consolidated financial statements have been examined and approved by the Board of Directors. An Audit and Finance Committee, composed of members of the Board of Directors, meets periodically with financial officers of the Corporation and the external auditors. These external auditors have free access to this Committee, without Management present, to discuss the results of their audit work and their opinion on the adequacy of internal financial controls and the quality of financial reporting.

As appointed by the Lieutenant Governor in Council and approved by Crown Investments Corporation of Saskatchewan, KPMG have been appointed external auditors. Their responsibility is to report to the Members of the Legislative Assembly regarding the fairness of presentation of the Corporation's financial position and results of operations as shown in the consolidated financial statements. In carrying out their audit, the external auditors also make use of the work of the actuary and her report on the policy liabilities. The Auditors' Report outlines the scope of their examination and their opinion.

Jon Schubert
President

Don Thompson
Chief Financial Officer

February 28, 2007

ACTUARY'S report

To the Board of Directors of Saskatchewan Government Insurance

I have valued the policy liabilities of SGI CANADA for its consolidated statement of financial position at December 31, 2006 and their change in the consolidated statement of operations and retained earnings for the year then ended in accordance with accepted actuarial practice, including selection of appropriate assumptions and methods, except as described in the following paragraph.

In accepted actuarial practice, the valuation of policy liabilities reflects the time value of money. Management required that the valuation of some policy liabilities not reflect the time value of money, which is permissible under Canadian generally accepted accounting principles for financial reporting purposes. My valuation complies with that practice.

In my opinion, except as noted in the previous paragraph, the amount of policy liabilities makes appropriate provision for all policyholder obligations, and the consolidated financial statements fairly present the results of the valuation.

Cara Low

Cara Low
Assistant Vice President, Corporate Actuary
Saskatchewan Government Insurance
Fellow, Canadian Institute of Actuaries

February 28, 2007

AUDITORS' report

To the Members of the Legislative Assembly
Province of Saskatchewan

We have audited the consolidated statement of financial position of Saskatchewan Government Insurance as at December 31, 2006 and the consolidated statements of operations and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants
Regina, Canada
February 28, 2007

CONSOLIDATED STATEMENT *of financial position*

December 31	2006	2005
	(thousands of $)	
Assets		
Cash and cash equivalents (note 3)	$ 24,054	$ 33,949
Accounts receivable (note 4)	97,622	75,129
Deferred policy acquisition costs	39,354	36,763
Future income taxes (note 13)	3,150	2,809
Reinsurers' share of unearned premiums	8,173	7,483
Investments (note 5)	444,464	400,071
Net investment in capital lease (note 6)	2,011	2,372
Goodwill	481	481
Unpaid claims recoverable from reinsurers (note 8)	32,273	27,415
Property, plant and equipment (note 7)	10,881	11,696
	$ 662,463	$ 598,168
Liabilities		
Accounts payable and accrued charges	$ 34,696	$ 17,873
Dividend payable	17,378	7,269
Premium taxes payable	13,439	12,784
Amounts due to reinsurers	4,892	6,585
Unearned reinsurance commissions	1,719	1,531
Unearned premiums	163,434	152,334
Provision for unpaid claims (note 8)	263,514	254,805
	499,072	453,181
Non-controlling interest	**1,792**	1,623
Province of Saskatchewan's equity		
Equity advances (note 9)	80,000	80,000
Retained earnings	81,599	63,364
	161,599	143,364
	$ 662,463	$ 598,168

Commitments and contingencies (note 20)

(see accompanying notes)

CONSOLIDATED STATEMENT *of operations and retained earnings*

year ended December 31		**2006**		2005
		(thousands of $)		
Gross premiums written	$	318,752	$	306,913
Net premiums written	$	301,184	$	286,384
Net premiums earned (note 10)	**$**	**290,807**	$	281,149
Claims incurred (note 10)		157,070		162,463
Commissions (note 10)		60,519		57,247
Administrative expenses (note 10)		34,781		31,922
Premium taxes (note 10)		14,039		13,550
Facility Association participation (note 18)		(597)		(1,058)
Total claims and expenses		**265,812**		264,124
Underwriting profit		**24,995**		17,025
Investment earnings (note 11)		30,551		27,632
Income before loss from service agreement, income taxes and non-controlling interest		**55,546**		44,657
Loss from service agreement (note 12)		1,588		9,705
Income before income taxes and non-controlling interest		**53,958**		34,952
Income taxes (recovery) (note 13)		1,377		(884)
Income after income taxes and before non-controlling interest		**52,581**		35,836
Non-controlling interest		480		636
Net income		**52,101**		35,200
Retained earnings, beginning of year		63,364		51,044
Dividend		(33,866)		(22,880)
Retained earnings, end of year	**$**	**81,599**	$	63,364

(see accompanying notes)

CONSOLIDATED STATEMENT *of cash flows*

year ended December 31	**2006**	2005
	(thousands of $)	
Cash provided by (used for):		
Operating activities		
Net income	$ 52,101	$ 35,200
Non-cash items:		
Amortization	2,451	2,733
Net realized gain on disposal of investments	(9,513)	(11,305)
Realized loss on sale of property, plant and equipment	-	10
Future income taxes	(341)	(2,738)
Investment write downs	27	983
Non-controlling interest	169	387
Loss (Income) from investments accounted for on the equity basis	283	(507)
Change in non-cash operating items (note 14)	5,416	29,368
	50,593	54,131
Investing activities		
Purchases of investments	(651,482)	(789,314)
Proceeds on sale of investments	614,479	744,506
Repayment of capital lease	361	327
Purchases of property, plant and equipment	(89)	(3,293)
	(36,731)	(47,774)
Financing activities		
Dividends paid	(23,757)	(21,543)
Equity advances	-	25,000
	(23,757)	3,457
Increase (decrease) in cash and cash equivalents	**(9,895)**	9,814
Cash and cash equivalents, beginning of year	33,949	24,135
Cash and cash equivalents, end of year	**$ 24,054**	$ 33,949
Supplemental Cash Flow Information:		
Income taxes paid	$ 2,273	$ 2,462

(see accompanying notes)

NOTES to the consolidated financial statements

December 31, 2006

1. NATURE OF OPERATIONS

Saskatchewan Government Insurance (the Corporation or SGI), which operates under the trade name of SGI CANADA, conducts a property and casualty insurance business in the province of Saskatchewan and in other provinces of Canada through its wholly owned subsidiary SGI CANADA Insurance Services Ltd. SGI CANADA Insurance Services Ltd. operates directly in Alberta and Manitoba, in Ontario through its wholly owned subsidiary Coachman Insurance Company (Coachman) and in Prince Edward Island, New Brunswick and Nova Scotia through its 75 per cent owned subsidiary, The Insurance Company of Prince Edward Island (ICPEI).

In many provinces in Canada, automobile insurance premium rates are regulated by provincial government authorities. Regulation of premium rates is based on claims and other costs of providing insurance coverage, as well as projected profit margins. Regulatory approvals can limit or reduce premium rates that can be charged, or delay the implementation of changes in rates. The Corporation's automobile premiums are subject to rate regulation in Alberta, Ontario, Prince Edward Island, New Brunswick and Nova Scotia, which represent approximately 8 per cent (2005 - 9 per cent) of the Corporation's consolidated net premiums earned.

SGI was established as a branch of the Public Service by *The Government of Saskatchewan Act, 1944*, reorganized pursuant to *The Saskatchewan Government Insurance Act, 1946*, and continued under the provisions of *The Saskatchewan Government Insurance Act, 1980*. SGI also acts as administrator of the Saskatchewan Auto Fund under the provisions of *The Automobile Accident Insurance Act*. As a provincial Crown corporation, the Corporation is not subject to federal or provincial income taxes, however SGI CANADA Insurance Services Ltd., Coachman and ICPEI are subject to federal and provincial income taxes.

As a subsidiary of Crown Investments Corporation of Saskatchewan (CIC), the consolidated financial results of the Corporation are included in the consolidated financial statements of CIC.

2. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Corporation are in accordance with Canadian generally accepted accounting principles. The following are considered to be significant:

Consolidation

The consolidated financial statements include the accounts of the Corporation and the consolidated accounts of its 100% owned subsidiaries, SGI CANADA Insurance Services Ltd. and Coachman and its 75% owned subsidiary, ICPEI. All inter-company accounts and transactions have been eliminated on consolidation.

Deferred policy acquisition costs

Premium taxes, commissions and certain underwriting and policy issuance costs are charged to expense over the terms of the insurance policies to which such costs relate. The method followed in determining the

deferred policy acquisition costs limits the amount of the deferral to the amount recoverable from unearned premiums after giving consideration to investment income, as well as claim and adjustment expenses expected to be incurred as the premiums are earned.

Goodwill

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the assets acquired, less liabilities assumed, based on their fair values. Goodwill is allocated, as of the date of the business combination, to the Company's reporting units that are expected to benefit from the synergies of the business combination.

Goodwill is not amortized and is tested for impairment annually, or more frequently, if events or changes in circumstances indicate that the asset might be impaired. The impairment test is carried out in two steps. In the first step, the carrying amount of the reporting unit is compared with its fair value. When the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not to be impaired and the second step of the impairment test is unnecessary.

The second step is carried out when the carrying amount of a reporting unit exceeds its fair value, in which case, the implied fair value of the reporting unit's goodwill is compared with its carrying amount to measure the amount of the impairment loss, if any. The implied fair value of goodwill is determined in the same manner, as the value of goodwill is determined in a business combination as described previously, using the fair value of the reporting unit as if it was the purchase price. When the carrying amount of reporting unit goodwill exceeds the implied fair value of the goodwill, an impairment loss is recognized in an amount equal to the excess and is presented as a separate line item in the statement of earnings before extraordinary items and discontinued operations.

Investments

Bonds, debentures and mortgages are recorded at amortized cost. Treasury bills, common shares and pooled equity funds are recorded at cost. Dividends on common shares are recognized as income on their record dates. Gains and losses on the sale of investments are recognized on their trade date.

Where the Corporation has investments in shares and exercises significant influence, the investments are accounted for on the equity basis and the Corporation's investment is adjusted for its share of the investee's net earnings or losses and reduced by dividends received.

Investments are written down when there is a decline in value that is other than temporary.

Capital lease

Investment earnings related to the direct financing lease are recognized in a manner that produces a constant rate of return on the investment in the lease. The net investment in the lease is composed of net minimum lease payments less unearned finance income.

Property, plant and equipment

Property, plant and equipment are recorded at cost less accumulated amortization. Amortization is recorded on a straight-line basis, commencing in the year in which the assets are placed in service, over their estimated useful lives as follows:

Building	2½%
Computer hardware, system costs and other equipment	20 - 50%

Provision for unpaid claims

The provision for unpaid claims represents an estimate of the total cost of outstanding claims to the year-end date. The estimate includes the cost of reported claims, and claims incurred but not reported, and an estimate of adjustment expenses to be incurred on these claims. The provision is calculated without discounting, except for long-term disability claims. The estimates are necessarily subject to uncertainty and are selected from a range of possible outcomes. During the life of the claim, adjustments to the estimates are made as additional information becomes available. The change in outstanding losses plus paid losses is reported as claims incurred in the current period.

Premiums

Premiums written are taken into income over the terms of the related policies, no longer than twelve months. Unearned premiums represent the portion of the policy premiums relating to the unexpired term of each policy.

Reinsurance ceded

Reinsurance premiums ceded and reinsurance recoveries on losses incurred are recorded as reductions of the respective income and expense accounts.

Unpaid claims recoverable from reinsurers, reinsurers' share of unearned premiums and unearned reinsurance commissions are estimated in a manner consistent with the method used for determining the provision for unpaid claims, unearned premiums and deferred policy acquisition costs respectively.

Income taxes

The Corporation uses the asset and liability method of accounting for income taxes. Current income taxes are recognized as estimated income taxes payable for the current year. Future income tax assets and liabilities consist of temporary differences between tax and accounting bases of assets and liabilities as well as the benefit of losses available to be carried forward to future years for tax purposes that are likely to be realized. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment. A valuation allowance is recorded against any future income tax asset if it is more likely than not that the asset will not be realized.

Foreign currency translation

Monetary assets and liabilities denominated in foreign currency are translated at the exchange rate in effect at the date of the Statement of Financial Position. Revenues and expenses are translated at the exchange rate in effect at the transaction date. Unrealized gains and/or losses arising on translation are charged to operations in the current year.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and treasury bills with a maturity of 90 days or less from the date of acquisition.

Employees' future benefits

The Corporation provides a defined benefit pension plan and a defined contribution pension plan that provide retirement benefits for its employees.

Under the defined contribution pension plan, the Corporation's obligations are limited to contributions made for current service. When made, these contributions are charged to income.

For the defined benefit plan:

(i) For the purpose of calculating the expected return on plan assets, those assets are valued at market value, which approximates fair value.

(ii) Pension obligations are determined by an independent actuary using the projected benefit method prorated on service and management's best estimate assumptions of expected plan investment performance, salary escalation, age at retirement, mortality of members and future pension indexing, based upon the consumer price index.

(iii) The discount rate used to determine the accrued benefit obligation was determined by reference to market interest rates at the measurement date of high-quality debt instruments with cash flows that match the timing and amount of expected benefit payments.

(iv) Past service costs from plan amendments and the transitional asset are amortized on a straight-line basis over a period of time which is a blending of the expected average remaining service lifetime of the active members and the future life expectancy of the pensioners.

(v) The excess of the net actuarial gain (loss) over 10% of the greater of the accrued benefit obligation and the fair value of the plan assets is amortized over a period of time which is a blending of the expected average remaining service lifetime of the active members and the future life expectancy of the pensioners.

The Corporation provides defined benefit service recognition plans for both management and in-scope (union) employees for the purpose of providing certain retirement benefits. The cost of the plans is determined using the projected benefit method prorated on service.

Measurement uncertainty

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates and changes in estimates are recorded in the accounting period in which they are determined. The most significant estimation processes are related to the actuarial determination of the provision for unpaid claims (note 8), investment valuation (note 5), income taxes (note 13), and employee future benefits (note 15).

3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include $33,504,000 (2005 - $40,823,000) in treasury bills earning an average effective interest rate of 4.3% (2005 - 3.3%).

4. ACCOUNTS RECEIVABLE

Accounts receivable is comprised of the following:

	(thousands of $) 2006	2005
Due from insureds	$ 37,957	$ 31,895
Due from brokers	29,837	26,970
Investment proceeds receivable	15,958	-
Facility Association receivable (note 18)	4,264	4,366
Accrued investment income	3,464	3,390
Due from reinsurers	1,450	1,273
Amounts recoverable on claims paid	1,004	1,420
Prepaid expenses	927	648
Computer purchase plan receivable	546	576
Accrued pension asset (note 15)	546	147
Service agreement receivable	-	1,235
Other	1,669	3,209
Total accounts receivable	$ 97,622	$ 75,129

Included in due from insureds is $37,701,000 (2005 - $31,614,000) of financed premiums receivable, which represents the portion of policyholders monthly premium payments that are not yet due. The majority of policyholders have the option to pay a portion of the premium when the policy is placed in force and the balance in monthly instalments. The policyholder pays an additional charge for this option, reflecting handling costs and the investment earnings that would have been earned on such premium, had the total amount been collected at the beginning of the policy period. The additional charge is recognized over the period of the policy.

5. INVESTMENTS

The carrying value and fair value of the Corporation's investments are as follows:

	(thousands of $) 2006		2005	
	Carrying Value	**Estimated Fair Value**	Carrying Value	Estimated Fair Value
Short-term investments	$ 19,846	$ 19,846	$ 20,676	$ 20,676
Bonds and debentures	332,698	334,474	313,899	315,266
Canadian common shares	27,629	44,075	23,979	40,256
U.S. common shares	11,415	14,095	11,423	14,108
Pooled equity funds				
- Canadian	12,419	12,970	-	-
- United States	4,265	4,516	-	-
- non-North American	15,565	19,823	10,451	11,808
Preferred shares	735	735	-	-
Mortgages	16,272	16,734	15,629	16,212
	440,844	467,268	396,057	418,326
Investments accounted for on the equity basis	3,620	3,620	4,014	4,014
Total investments	$ 444,464	$ 470,888	$ 400,071	$ 422,340

Details of significant terms and conditions, exposures to interest rate and credit risks of investments are as follows:

(i) Short-term investments:

Short-term investments are comprised of treasury bills with a maturity of less than one year but greater than 90 days from the date of acquisition. These investments have an average effective interest rate of 4.1% (2005 - 3.2%) and an average remaining term to maturity of 99 days (2005 - 97 days). The Corporation's investment policy states that investments must meet minimum investment standards of R-1, as rated by a recognized credit rating service.

Holdings for any one issuer, other than the Government of Canada or a Canadian province, are limited to 10% of the market value of the combined short-term investment and bond portfolios.

Carrying amounts for short-term investments approximate fair value due to the immediate or short-term nature of these financial instruments.

(ii) Bonds and debentures:

The Corporation's investment policy states that the minimum quality standard for purchase of bonds and debentures is BBB, as rated by a recognized credit rating service.

The Corporation's investment policy limits its holdings for any one issuer, other than the Government of Canada or a Canadian province, to 10% of the market value of the combined bond and short-term investment portfolios. The holdings for any one province are limited to 20% of the market value of the bond portfolio. Foreign currency exposure is limited to 5% of the market value of the bond portfolio and no more than 10% of the market value of the bond portfolio shall be invested in bonds of foreign issuers.

The carrying value and average effective interest rates are shown in the following chart by contractual maturity. Actual maturity may differ from contractual maturity because certain borrowers have the right to call or prepay obligations with or without call or prepayment penalties. The carrying values are essentially the same as the principal value and therefore the average effective rates are not materially different from the coupon rates. Interest is generally payable on a semi-annual basis.

(thousands of $)

	2006		2005	
	Carrying Value	**Average Effective Rates**	Carrying Value	Average Effective Rates
Government of Canada:				
One or less	$ 100	4.6%	$ -	-
After one through five	176,732	4.4%	129,139	3.9%
After five	22,454	3.9%	48,269	4.5%
Canadian provincial & municipal:				
One or less	177	5.8%	2,193	6.2%
After one through five	28,123	5.5%	29,402	5.2%
After five	29,102	5.2%	36,968	5.2%
Canadian corporate:				
One or less	25	7.0%	-	-
After one through five	60,028	4.6%	48,608	4.7%
After five	15,957	4.9%	19,320	5.4%
Total bonds & debentures	$ 332,698		$ 313,899	

For bonds and debentures, the fair values are considered to approximate quoted market values, based on the latest bid prices.

(iii) Common shares:

Common shares have no fixed maturity dates and are generally not exposed to interest rate risk. The average effective dividend rate is 2.3% (2005 - 2.1%).

The Corporation's investment policy limits its investment concentration in any one investee or related group of investees to 10% of the market value of the Corporation's common shares portfolio. As well, no one holding may represent more than 10% of the voting shares of any corporation.

The fair value of common shares are considered to approximate quoted market values on recognized stock exchanges, based on the latest bid prices.

(iv) Pooled equity funds:

The Corporation owns units in Canadian, United States and non-North American pooled equity funds that have no fixed distribution rate. Fund returns are based on the success of the fund managers.

The fair value of pooled equity funds is considered to approximate the quoted market values of the underlying investments, based on the latest bid prices.

(v) Preferred shares:

The preferred share investment is a private placement and is not traded on a listed exchange. It provides for a 6.75% annual dividend payable semi-annually for the first five years. The rights of these shares will allow the holder to convert the preferred shares into that entity's common shares or allows the entity to redeem the preferred shares starting in June 2009. The effective dividend rate is 3.4% (2005 - N/A).

The Corporation's investment policy limits its investment concentration in any one investee or related group of investees to 10% of the market value of the Corporation's portfolio. As well, no one holding may represent more than 10% of the voting shares of any corporation.

The preferred share's estimated fair value is considered to be approximated by its book value as these shares are not traded on a stock exchange.

(vi) Mortgages:

The mortgage portfolio consists entirely of Canadian commercial mortgages with average effective interest rates of 6.5% (2005 - 6.6%) with an average maturity of 4.7 years (2005 - 3.9 years). Principal and interest is receivable on a monthly basis.

The Corporation's investment policy limits the maximum aggregate amount of mortgage loans to any one borrower to 20% of the total mortgage portfolio.

For mortgages, the fair value is calculated by discounting scheduled cash flows through to the estimated maturity of the mortgage using current interest rates.

(vii) Investments accounted for on the equity basis:

The Corporation has a 9% ownership interest in a crop hail insurance business and indirectly controls an additional 27% of the business through preferred share ownership in other crop hail insurance companies.

Through a subsidiary, the Corporation has a 25% ownership interest in each of Charlie Cooke Insurance Agency Ltd., Atlantic Adjusting & Appraisals Ltd. and Maritime Finance & Acceptance Corporation.

The fair value of investments accounted for on the equity basis is considered to approximate book value.

6. NET INVESTMENT IN CAPITAL LEASE

The Corporation, as lessor, has a 37% interest in a lease agreement with the Department of Saskatchewan Property Management, a related party, for a term of 30 years (expiring April 2011) on property in Prince Albert, Saskatchewan. The lease transfers substantially all benefits and risks associated with the ownership of the property to the lessee. The Corporation's net investment in the capital lease includes the following:

	(thousands of $) 2006	2005
Total minimum lease payments receivable ($583,000 per year)	$ 2,477	$ 3,060
Unearned income	(466)	(688)
Net investment investment in capital lease	$ 2,011	$ 2,372

The fair value of the net investment in the capital lease is $2,355,000 (2005 - $2,874,000). The fair value is calculated by discounting scheduled cash flows through to the estimated expiration of the lease using current interest rates.

7. PROPERTY, PLANT AND EQUIPMENT

The components of the Corporation's investment in property, plant and equipment, as well as the related accumulated amortization, are as follows:

	(thousands of $) 2006			2005
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land	$ 972	$ -	$ 972	$ 972
Building	23,063	13,290	9,773	10,517
Computer hardware, system costs and other equipment	16,349	16,213	136	207
Total	$ 40,384	$ 29,503	$ 10,881	$ 11,696

Amortization for the year is $904,000 (2005 - $899,000) and is included in administrative expenses on the Consolidated Statement of Operations and Retained Earnings.

8. PROVISION FOR UNPAID CLAIMS

(i) Nature of unpaid claims:

The establishment of the provision for unpaid claims is based on known facts and interpretation of circumstances and is therefore a complex process influenced by a variety of factors. Measurement of the provision is uncertain due to claims that are not reported to the Corporation at the year-end date and therefore estimates are made as to the value of these claims. As well, uncertainty exists regarding the cost of reported claims that have not been settled, as all the necessary information may not be available at the date of the statement of financial position.

Factors used to estimate the provision include: the Corporation's experience with similar cases, historical claim payment trends, the characteristics of each class of business, claim severity and claim frequency, the effect of inflation on future claim settlement costs, court decisions and economic conditions. Time is also a critical factor in determining the provision, since the longer it takes to settle and pay a claim the more variable the ultimate settlement amount will be. Accordingly, short-tail claims such as physical damage or collision claims tend to be more reasonably predictable than long-tail claims such as liability claims.

As a result, the establishment of the provision for unpaid claims relies on a number of factors and on the judgment and opinions of a number of individuals, which necessarily involves risk that actual results may differ materially from the estimates.

Changes in the estimate for the provision for unpaid claims are as follows:

(thousands of $)	2006	2005
Net unpaid claims - beginning of year	$ 227,390	$ 204,646
Payments made during the year relating to:		
Prior year claims	(69,897)	(55,632)
Prior year unpaid service agreement claims	(3,231)	-
Prior year Facility Association claims	(286)	(460)
Deficiency (Excess) relating to:		
Prior year estimated unpaid claims	(5,997)	(13,853)
Prior year unpaid service agreement claims	1,588	9,705
Prior year estimated unpaid Facility Association claims	(902)	(638)
Net unpaid for claims of prior years	148,665	143,768
Provision for claims occurring in the current year	82,054	82,758
Provision for Facility Association claims occurring in the current year	522	864
Net unpaid claims - end of year	$ 231,241	$ 227,390

The fair value of the provision for unpaid claims and unpaid claims recoverable from reinsurers has not been provided because it is not practicable to determine fair value with sufficient reliability.

(ii) Type of unpaid claims:

The provision for unpaid claims is summarized by line of business as follows:

(thousands of $)	2006			2005		
	Gross	Reinsurance Recoverable	Net	Gross	Reinsurance Recoverable	Net
Automobile	$ 136,480	$ 28,008	$ 108,472	$ 137,790	$ 23,936	$ 113,854
Property	43,634	1,141	42,493	45,379	852	44,527
Liability	63,151	3,124	60,027	48,976	2,627	46,349
Assumed	8,148	-	8,148	8,250	-	8,250
Service agreement (note 12)	9,297	-	9,297	10,940	-	10,940
Facility Association (note 18)	2,804	-	2,804	3,470	-	3,470
Total	$ 263,514	$ 32,273	$ 231,241	$ 254,805	$ 27,415	$ 227,390

Included in the provision for unpaid claims are discounted amounts for certain injury accident benefits in the amount of $12,158,000 (2005 - $11,708,000). These claims have been discounted using a rate of 6% (2005 - 6%) which reflects the expected claim settlement patterns and the SGI's projected rate of return on its investment portfolio.

Included in the above amount is a provision for adverse development in the amount of $911,000 (2005 - $879,000).

The provision for unpaid claims includes a provision for unpaid reinsurance assumed claims of $8,148,000 (2005 - $8,250,000). The Corporation discontinued its practice of underwriting reinsurance assumed business in 1985, but remains financially responsible for claims run-off on assumed contracts.

(iii) Structured settlements:
The Corporation settles some long-term disability claims by purchasing annuities from various financial institutions. The settlements legally release the Corporation from its obligations to the claimants. Consequently, neither the annuities purchased nor the claim liabilities are recognized on the Statement of Financial Position. However, as part of the settlement, the Corporation provides a financial guarantee to the claimants in the event the financial institutions default on the scheduled payments. As at December 31, 2006, no information has come to the Corporation's attention that would suggest any weakness or failure in the financial institutions from which it has purchased annuities. The net present value of the scheduled payments as of the date of the Statement of Financial Position is $47,181,000 (2005 - $48,778,000).

9. EQUITY ADVANCES

The Corporation does not have share capital. However, the Corporation has received equity advances from its parent, CIC, to form its equity capitalization. The advances reflect an equity investment in the Corporation by CIC.

10. UNDERWRITING POLICY AND REINSURANCE CEDED

The Corporation seeks to reduce losses that may arise from catastrophes or other events that cause unfavourable underwriting results by reinsuring certain levels of risk with other insurers. The policy of underwriting and reinsuring contracts of insurance limits the liability of the Corporation to a maximum amount on any one loss as follows:

	(thousands of $) 2006	2005
Dwelling and farm property	$ 500	$ 500
Unlicensed vehicles	500	500
Commercial property	1,000	1,000
Automobile and general liability	1,000	1,000
(subject to filling an annual aggregate deductible of)	1,500	1,500
Property catastrophe (health care)	7,500	7,500
Property catastrophe (non-health care)	8,500	8,500

The Corporation evaluates and monitors the financial condition of its reinsurers to minimize its exposure to significant losses from reinsurer insolvency.

The following table sets out the amount by which reinsurance ceded has reduced (increased) the premiums earned, claims incurred, commissions, premium taxes and administrative expenses:

	(thousands of $) 2006	2005
Premium earned	$ 21,909	$ 21,643
Claims incurred	8,730	(434)
Commissions and premium taxes	2,208	2,443
Administrative expenses	1,115	1,018

The Corporation has purchased adverse claim development reinsurance for pre-April 30, 2001 claims of Coachman Insurance Company, a wholly owned subsidiary. The reinsurance has a $3.0 million deductible and provides coverage up to $8.0 million. In the current year, development on prior year claims has resulted in an decrease to claims incurred and an increase to the related receivable in the amount of $1,660,000 (2005 - an increase to claims incurred and a reduction to the related receivable in the amount of $434,000). The total receivable at December 31, 2006 is $4,620,000 (2005 - $2,960,000).

11. INVESTMENT EARNINGS

The components of investment earnings are as follows:

	(thousands of $) 2006	2005
Interest	$ 14,934	$ 13,073
Net realized gain on sale of investments	9,535	11,311
Pooled equity funds	2,657	258
Premium financing	2,565	2,310
Dividends	948	901
Capital lease	222	256
Investment write downs	(27)	(983)
Investments accounted for on the equity basis	(283)	506
Total investment earnings	$ 30,551	$ 27,632

12. LOSS FROM SERVICE AGREEMENT

During 1998, a subsidiary of the Corporation, Coachman, issued an insurance policy to a vehicle rental company (the rental company). The policy provided bodily injury liability coverage on the rental company's vehicles being driven by its customers. The rental company paid Coachman an annual premium under this policy between $100,000 and $120,000. At the same time, Coachman made an agreement that allowed the rental company to settle and pay all claims submitted by its customers. Because the insurance coverage was in the name of Coachman, the rental company was required to report to Coachman quarterly on the status of all reported claims and the provision for unpaid claims. As security to guarantee the provision for unpaid claims, a trust account was to be maintained in an amount that would meet the funding of the outstanding liabilities related to the policy.

The agreement with the rental company expired on March 31, 2005. Subsequent to the expiration of the contract, the rental company filed for voluntary receivership. During the receivership proceedings, it was determined that the rental company had not reported claims correctly to Coachman, nor had it deposited the correct amounts in the trust account. Coachman has since collected the balance held in the trust account of $1,235,000. A loss from service agreement of $1,588,000 (2005 - $9,705,000) has been charged to operations in the current year.

During the year, Coachman commenced legal action against certain of the parties involved to recover the shortfall related to this service agreement. Any recovery will be accounted for in the year of receipt.

13. INCOME TAXES

The Corporation's provision for (recovery of) income taxes is as follows:

	(thousands of $) 2006	2005
Current	$ 1,718	$ 1,854
Future	(341)	(2,738)
Total income taxes (recovery)	$ 1,377	$ (884)

Income tax expense differs from the amount that would be computed by applying the federal and provincial statutory income tax rates to income before income taxes and non-controlling interest. The reasons for the differences are as follows:

	(thousands of $) 2006	2005
Income before income taxes and non-controlling interest from taxable subsidiaries	$ 14,928	$ 3,347
Combined federal and provincial tax rate	36.47%	38.84%
Computed tax expense based on combined rate	$ 5,444	$ 1,300
Increase (decrease) resulting from:		
Investment earnings not subject to taxation	(81)	(58)
Non deductible expenses for tax purposes	25	20
Valuation allowance	(4,030)	(2,149)
Other	19	3
Total income taxes (recovery)	$1,377	$(884)

The tax effects of temporary differences that give rise to significant portions of the future income tax assets and future income tax liabilities are presented below:

	(thousands of $) 2006	2005
Future income tax assets		
Tax loss carryforward	$ 4,927	$ 8,446
Provision for unpaid claims	1,794	2,093
Other	27	34
	6,748	10,573
Less: valuation allowance	(1,896)	(5,926)
Total future income tax assets	4,852	4,647
Future income tax liabilities		
Investments	1,073	1,120
Unpaid claims recoverable from reinsurers	629	718
Total future income tax liabilities	1,702	1,838
Net future income tax assets	$ 3,150	$ 2,809

The Corporation has non-capital loss carryforwards of approximately $13,639,000 (2005 - $23,385,000) that expire in 2015.

14. CHANGE IN NON-CASH OPERATING ITEMS

The change in non-cash operating items is comprised of the following:

	(thousands of $) 2006	2005
Accounts receivable	$ (6,535)	$ (1,059)
Deferred policy acquisition costs	(2,591)	(1,392)
Reinsurers' share of unearned premiums	(690)	1,113
Unpaid claims recoverable from reinsurers	(4,858)	499
Accounts payable and accrued charges	1,131	2,264
Premium taxes payable	655	352
Amounts due to reinsurers	(1,693)	1,476
Unearned reinsurance commissions	188	(33)
Unearned premiums	11,100	3,903
Provision for unpaid claims	8,709	22,245
	$ 5,416	$ 29,368

15. EMPLOYEE FUTURE BENEFITS

(i) Defined benefit pension plan:

The Corporation has a defined benefit pension plan for certain of its employees that has been closed to new membership since 1980. Current service costs of this plan are charged to earnings on the basis of actuarial valuations, the most recent valuation being as of December 31, 2005. The next valuation will have a valuation date of December 31, 2008. The plan and the valuation results includes both employees of the Corporation and the Saskatchewan Auto Fund.

The actuarial valuation includes a provision for uncommitted and ad hoc benefit increases, and is measured using management's best estimates based on assumptions that reflect the most probable set of economic circumstances and planned courses of action. The estimate, therefore, involves risks that the actual amount may differ materially from the estimate.

Results from the latest valuation as at December 31, 2005, projected to December 31, 2006, and the major assumptions used in the valuation, are as follows:

Economic assumptions:	(thousands of $) 2006	2005
Discount rate - beginning of period	5.00%	5.60%
Discount rate - end of period	5.00%	5.00%
Expected return on plan assets	6.25%	6.75%
Inflation rate	2.50%	2.50%
Expected salary increase	3.50%	3.50%
Post-retirement index	50% of CPI	50% of CPI
Remaining service life of active members in years (EARSL)	4	5

Information about the Corporation's defined benefit pension plan is as follows:

	(thousands of $) 2006	2005
Accrued benefit obligation		
Accrued benefit obligation, beginning of year	$ 45,181	$ 44,721
Current service cost	212	252
Interest cost	2,170	2,416
Benefits paid	(3,954)	(3,577)
Actuarial loss on accrued benefit obligation	1,606	1,369
Accrued benefit obligation, end of year	$ 45,215	$ 45,181
Plan assets		
Fair value of plan assets, beginning of year	$ 45,280	$ 44,377
Actual return on plan assets	4,332	4,411
Employee contributions	52	69
Employer contributions	30	-
Benefits paid	(3,954)	(3,577)
Fair value of plan assets, end of year	$ 45,740	$ 45,280
Funded status - plan surplus	$ 525	$ 99
Unamortized transitional asset	(1,827)	(3,111)
Unamortized net actuarial losses	2,961	3,449
Accrued pension asset	$ 1,659	$ 437
Accrued pension asset - SGI	$ 546	$ 147
Accrued pension asset - Saskatchewan Auto Fund	$ 1,113	$ 290

The asset allocation of the defined benefit pension plan assets is as follows:

		Percent of Plan Assets at December 31	
Asset Category	Target Range	2006	2005
Short-term investments	3 - 20%	3%	5%
Bonds and debentures	40 - 70%	55%	53%
Canadian equities	10 - 30%	16%	16%
U.S. equities	Total foreign	13%	14%
Non-North American equities	18 - 30%	13%	12%

Pension income for the defined benefit pension plan is as follows:

	2006	2005
Current service cost	$ 160	$ 183
Interest cost	2,170	2,416
Expected return on pension plan assets	(2,709)	(2,877)
Amortization of net transitional asset	(608)	(743)
Amortization of actuarial gains	(205)	(70)
Pension income	$ (1,192)	$ (1,091)
Pension income - SGI	$ (392)	$ (367)
Pension income - Saskatchewan Auto Fund	$ (800)	$ (724)

The pension income of $392,000 (2005 - $367,000) is recorded in administrative expenses on the Consolidated Statement of Operations and Retained Earnings.

(ii) Defined contribution pension plan:

The Corporation also has employees who are members of the Capital Pension Plan, which is a defined contribution pension plan. The Corporation's financial obligation is limited to matching employee contributions of 5.5% to the plan.

Pension expense for the defined contribution pension plan is as follows:

	2006	2005
Current service cost	$ 4,256	$ 3,969
Pension expense - SGI	$ 1,399	$ 1,334
Pension expense - Saskatchewan Auto Fund	$ 2,857	$ 2,635

The pension expense of $1,399,000 (2005 - $1,334,000) is recorded in administrative expenses on the Consolidated Statement of Operations and Retained Earnings.

(iii) Defined benefit service recognition plans:

Significant actuarial assumptions adopted in measuring the Corporation's accrued benefit obligation at December 31 are:

	2006	2005
Discount rate	4.7%	4.7%
Expected salary increase	3.5%	4.0%
EARSL - management	12	11
EARSL - in-scope	10	10

Information about the defined benefit service recognition plans is as follows:

	(thousands of $) 2006	2005
Benefit expense	$ 2,764	$ 2,525
Accrued benefit obligation	$ 16,911	$ 14,781
Unamortized past service costs, net actuarial losses and transitional asset	(10,888)	(10,484)
Accrued benefit liability	$ 6,023	$ 4,297
Accrued benefit liability - SGI	$ 1,980	$ 1,444
Accrued benefit liability - Saskatchewan Auto Fund	$ 4,043	$ 2,853

The accrued benefit liability of $1,980,000 (2005 - $1,444,000) is recorded in accounts payable and accrued charges on the Consolidated Statement of Financial Position.

16. RELATED PARTY TRANSACTIONS

Included in these financial statements are transactions with various Saskatchewan Crown corporations, departments, agencies, boards and commissions related to the Corporation by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan (collectively referred to as "related parties").

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms. Transactions and amounts outstanding at year end are as follows:

	(thousands of $)	
Category	**2006**	2005
Accounts receivable	$ 394	$ 400
Deferred policy acquisition costs	6,674	6,386
Investments	4,752	6,505
Accounts payable and accrued charges	7	99
Dividends payable	17,378	7,269
Premium taxes payable	13,063	12,537
Unearned premiums	1,784	1,805
Provision for unpaid claims	1,706	678
Gross premiums written	4,624	4,730
Gross premiums earned	4,648	4,708
Claims incurred	2,408	1,069
Administrative expenses	1,920	1,593
Premium taxes	12,775	12,277
Investment earnings	279	330

The Corporation acts as administrator of the Saskatchewan Auto Fund. Administrative and claim adjustment expenses incurred by the Corporation are allocated to the Corporation and the Saskatchewan Auto Fund directly or on the basis of specific distributions. Amounts incurred by the Corporation and charged to the Saskatchewan Auto Fund were $83,346,000 (2005 - $78,924,000) and accounts payable are $1,581,000 (2005 - $1,743,000).

The Corporation has direct premiums that are brokered through Charlie Cooke Insurance Agency Ltd., pays claim adjusting fees to Atlantic Adjusting & Appraisals Ltd. and has premiums financed for policyholders by Maritime Finance & Acceptance Corporation. These companies are affiliated with the minority shareholder of ICPEI, who is a member of ICPEI's senior management. The policies written and the claim adjusting expenses paid are routine operating transactions in the normal course of business.

Transactions and amounts outstanding at year end are as follows:

	(thousands of $)	
Category	**2006**	2005
Accounts receivable	$ 453	$ 487
Accounts payable	407	882
Premiums written	8,102	8,451
Claims incurred	392	411
Commissions	1,487	2,034
Premiums financed	3,329	3,384

One of the Corporations' directors is a partner in an organization that provided professional services to the Corporation. During the current year, these services amounted to $189,000 (2005 - $71,000) and were recorded in claims incurred in the Statement of Operations and Retained Earnings.

Other related party transactions are described separately in the notes.

17. FAIR VALUES

The fair value of financial assets and liabilities, other than investments (note 5), net investment in capital lease (note 6), unpaid claims and unpaid claims recoverable from reinsurers (note 8) approximate carrying value due to their immediate or short-term nature.

18. FACILITY ASSOCIATION PARTICIPATION

Through its subsidiaries, the Corporation is a participant in automobile residual market and risk sharing pools, whereby companies in the industry are required by regulation to provide automobile insurance coverage to high risk insureds.

Facility Association transactions recorded in the Corporation's financial results are as follows:

(thousands of $)	2006	2005
Gross premiums written	$ 432	$ 1,486
Net premiums earned	$ 646	$ 1,705
Claims incurred	(64)	305
Commissions	67	175
Premium taxes	21	58
Administrative expenses	154	223
Total claims and expenses	178	761
Underwriting profit	468	944
Investment earnings	129	114
Net income	$ 597	$ 1,058
Facility Association receivable	$ 4,264	$ 4,366
Unearned premiums	523	764
Provision for unpaid claims	2,804	3,470
Facility Association payable	3,500	3,504

19. SEGMENTED INFORMATION

The Corporation provides property and casualty insurance through four operating segments: Saskatchewan, Manitoba and Alberta, Ontario and the Maritimes (where Maritimes represents Prince Edward Island, New Brunswick and Nova Scotia). These operating segments correspond with the legal entities that make up the Corporation, as discussed in note 1. The performance of each operating segment is reported separately to the Corporation's Board of Directors.

(thousands of $)

2006	Saskatchewan	Manitoba & Alberta	Ontario	Maritimes	Consolidation Adjustments	Total
Net premiums written	$ 252,417	$ 14,136	$ 26,064	$ 8,567	$ -	$ 301,184
Net premiums earned	$ 246,790	$ 12,285	$ 23,352	$ 8,380	$ -	$ 290,807
Claims incurred	138,307	7,357	8,091	3,315	-	157,070
Other expenses	92,879	5,345	7,836	2,682	-	108,742
Underwriting profit (loss)	15,604	(417)	7,425	2,383	-	24,995
Investment earnings	23,426	2,225	4,073	827	-	30,551
Income before the following:	39,030	1,808	11,498	3,210	-	55,546
Loss from service agreement	-	-	1,588	-	-	1,588
Income taxes (recovery)	-	603	(442)	1,216	-	1,377
Non-controlling interest	-	-	-	-	480	480
Net income	$ 39,030	$ 1,205	$ 10,352	$ 1,994	$ (480)	$ 52,101
Total assets	$ 476,248	$ 77,731	$ 119,927	$ 30,129	$ (41,572)	$ 662,463
Shareholder's equity	$ 95,279	$ 31,853	$ 27,665	$ 8,594	$ (1,792)	$ 161,599

(thousands of $)

2005	Saskatchewan	Manitoba	Ontario	Maritimes	Consolidation Adjustments	Total
Net premiums written	$ 240,986	$ 11,749	$ 25,436	$ 8,213	$ -	$ 286,384
Net premiums earned	$ 235,960	$ 11,323	$ 25,518	$ 8,348	$ -	$ 281,149
Claims incurred	139,354	7,482	13,649	1,978	-	162,463
Other expenses	87,217	4,494	7,192	2,758	-	101,661
Underwriting profit (loss)	9,389	(653)	4,677	3,612	-	17,025
Investment earnings	22,216	1,100	3,502	814	-	27,632
Income before the following:	31,605	447	8,179	4,426	-	44,657
Loss from service agreement	-	-	9,705	-	-	9,705
Income taxes (recovery)	-	103	(2,689)	1,702	-	(884)
Non-controlling interest	-	-	-	-	636	636
Net income	$ 31,605	$ 344	$ 1,163	$ 2,724	$ (636)	$ 35,200
Total assets	$ 424,099	$ 66,149	$ 113,667	$ 29,190	$ (34,937)	$ 598,168
Shareholder's equity	$ 90,115	$ 29,644	$ 17,313	$ 7,915	$ (1,623)	$ 143,364

20. COMMITMENTS AND CONTINGENCIES

The Corporation is committed to a related party until 2010 for a telecommunications contract. At December 31, 2006 the remaining commitment is $3,713,000 (2005 - $1,245,000 a year). A subsidiary of the Corporation, Coachman, has a lease for its office premises expiring December 31, 2008 at an annual rent of $186,000.

In common with the insurance industry in general, the Corporation is subject to litigation arising in the normal course of conducting its insurance business. The Corporation is of the opinion that this litigation will not have a significant effect on the financial position or results of operations of the Corporation.

21. COMPARATIVE FINANCIAL INFORMATION

For comparative purposes, certain 2005 balances have been reclassified to conform to 2006 financial statement presentation.

CORPORATE *governance*

The Canadian Securities Administrators and securities regulators across Canada have implemented governance policies for publicly traded companies. National Policy 58-201 and National Instrument 58-101 came into effect on June 30, 2005. While Saskatchewan Government Insurance is not publicly traded and therefore not required to comply with these guidelines, they provide an excellent benchmark to measure good governance practices.

NATIONAL POLICY 58-201 CORPORATE GOVERNANCE GUIDELINES

Guideline	Saskatchewan Government Insurance
Composition of the Board 1. The board should have a majority of independent directors.	Yes. The board of directors is constituted of a majority of independent directors.
2. The chair of the board should be an independent director. Where this is not appropriate, an independent director should be appointed to act as "lead director." However, either an independent chair or an independent lead director should act as the effective leader of the board and ensure that the board's agenda will enable it to successfully carry out its duties.	Yes. The Chair of the board, Nancy Hopkins, is an independent director.
Meetings of Independent Directors 3. The independent directors should hold regularly scheduled meetings at which non-independent directors and members of management are not in attendance.	Yes. The board of directors has meetings in-camera, during which no management are in attendance, at every board and committee meeting, as well as on an as-required basis. In addition, the board holds regular in-camera meetings where non-independent directors and members of management are not in attendance.
Board Mandate 4. The board should adopt a written mandate in which it explicitly acknowledges responsibility for the stewardship of the issuer, including responsibility for: (a) to the extent feasible, satisfying itself as to the integrity of the chief executive officer (the CEO) and other executive officers and that the CEO and other executive officers create a culture of integrity throughout the organization;	Yes. The board has approved Terms of Reference (Mandate) which explicitly acknowledge responsibility for the stewardship of the Corporation. Yes. The board has approved the Corporate values to which all employees, including the CEO and senior management, are expected to operate.

NATIONAL POLICY 58-201 CORPORATE GOVERNANCE GUIDELINES

Guideline	Saskatchewan Government Insurance
(b) adopting a strategic planning process and approving, on at least an annual basis, a strategic plan which takes into account, among other things, the opportunities and risks of the business;	Yes. The board of directors holds an annual multi-day strategic planning session. This session provides the basis of the Corporation's strategic plan and initiatives, as well as direction to management in the formation of Corporation's operating budget and goals. Further, the board is provided with periodic updates during the year on the progress of the corporate strategic initiatives.
(c) the identification of the principal risks of the issuer's business, and ensuring the implementation of appropriate systems to manage these risks;	Yes. The board of directors undertakes a process to identify the principal risks of the business, to achieve a proper balance between risks incurred and potential returns and to oversee the implementation of appropriate systems to manage the risks. The board of directors has charged the Audit and Finance committee with responsibility for this function and they report to the board on those risks at least on an annual basis.
(d) succession planning (including appointing, training and monitoring senior management);	Yes. The board of directors has charged the Governance and Human Resources committee with responsibility for the Corporation's succession plan. The committee reviews the plan on an annual basis and reports its findings to the board.
(e) adopting a communication policy for the issuer;	Yes. The Corporation has a formal communications policy which has been approved by the board of directors.
(f) the issuer's internal control and management information systems; and	Yes.
(g) developing the issuer's approach to corporate governance, including developing a set of corporate governance principles and guidelines that are specifically applicable to the issuer.	Yes.

NATIONAL POLICY 58-201 CORPORATE GOVERNANCE GUIDELINES

Guideline	Saskatchewan Government Insurance
The written mandate of the board should also set out: (i) measures for receiving feedback from stakeholders (e.g., the board may wish to establish a process to permit stakeholders to directly contact the independent directors), and	Yes. The Corporation also undertakes research annually on behalf of the board.
(ii) expectations and responsibilities of directors, including basic duties and responsibilities with respect to attendance at board meetings and advance review of meeting materials. In developing an effective communication policy for the issuer, issuers should refer to the guidance set out in National Policy 51-201 Disclosure Standards.	Position descriptions for directors are in the development stage and are expected to be approved and in place in 2006.
Position Descriptions 5. The board should develop clear position descriptions for the chair of the board and the chair of each board committee. In addition, the board, together with the CEO, should develop a clear position description for the CEO, which includes delineating management's responsibilities. The board should also develop or approve the corporate goals and objectives that the CEO is responsible for meeting.	Position descriptions for directors were developed and approved in 2006.
Orientation and Continuing Education 6. The board should ensure that all new directors receive a comprehensive orientation. All new directors should fully understand the role of the board and its committees, as well as the contribution individual directors are expected to make (including, in particular, the commitment of time and resources that the issuer expects from its directors). All new directors should also understand the nature and operation of the issuer's business.	Yes. The Terms of Reference for the board specify the responsibility for director training, which has been delegated to the Governance committee. New directors receive an orientation which provides a overview of the Corporation, its operations and its industry. Further, directors are educated on the role of the board, its committees and the expectation of directors. The director position description, which is in development, describes a director's responsibilities.
7. The board should provide continuing education opportunities for all directors, so that individuals may maintain or enhance their skills and abilities as directors, as well as to ensure their knowledge and understanding of the issuer's business remains current.	Yes. The board provides opportunities for all directors to increase their knowledge of issues and subjects facing the Corporation. Further, Crown Investments Corporation provides annual director training opportunities to all Crown corporation directors.

NATIONAL POLICY 58-201 CORPORATE GOVERNANCE GUIDELINES

Guideline	Saskatchewan Government Insurance
Code of Business Conduct and Ethics 8. The board should adopt a written code of business conduct and ethics (a code). The code should be applicable to directors, officers and employees of the issuer. The code should constitute written standards that are reasonably designed to promote integrity and to deter wrongdoing. In particular, it should address the following issues:	Yes. The board has adopted a written Code of Conduct for directors and a Corporate Code of Ethics and Conduct which is applicible to directors, officers and employees.
(a) conflicts of interest, including transactions and agreements in respect of which a director or executive officer has a material interest;	Yes. Conflicts of interest are addressed in both the Code of Conduct for Directors and the Corporate Code of Ethics and Conduct.
(b) protection and proper use of corporate assets and opportunities;	Yes. The protection and proper use of corporate assets and opportunities are addressed in both the Code of Conduct for Directors and the Corporate Code of Ethics and Conduct.
(c) confidentiality of corporate information;	Yes. The confidentiality of corporate information is addressed in both the Code of Conduct for Directors and the Corporate Code of Ethics and Conduct.
(d) fair dealing with the issuer's security holders, customers, suppliers, competitors and employees;	Yes. The fair dealing with customers, suppliers, competitors and employees is addressed in the Corporate Code of Ethics and Conduct.
(e) compliance with laws, rules and regulations; and	Yes. The compliance with laws, rules and regulations is addressed in both the Code of Conduct for Directors and the Corporate Code of Ethics and Conduct.
(f) reporting of any illegal or unethical behaviour.	Yes. The reporting of any illegal or unethical behaviour is addressed in the Corporate Code of Ethics and Conduct, and more specifically in the Whistleblower Policy.

NATIONAL POLICY 58-201 CORPORATE GOVERNANCE GUIDELINES

Guideline	Saskatchewan Government Insurance
9. The board should be responsible for monitoring compliance with the code. Any waivers from the code that are granted for the benefit of the issuer's directors or executive officers should be granted by the board (or a board committee) only.	Yes. The Human Resources committee receives an annual report concerning compliance with the code. On a required basis, the Human Resources committee may grant a waiver from the code.
Although issuers must exercise their own judgment in making materiality determinations, the Canadian securities regulatory authorities consider that conduct by a director or executive officer which constitutes a material departure from the code will likely constitute a "material change" within the meaning of National Instrument 51-102 Continuous Disclosure Obligations. National Instrument 51-102 requires every material change report to include a full description of the material change. Where a material departure from the code constitutes a material change to the issuer, we expect that the material change report will disclose, among other things: • the date of the departure(s), • the party(ies) involved in the departure(s), • the reason why the board has or has not sanctioned the departure(s), and • any measures the board has taken to address or remedy the departure(s).	Not applicable.
Nomination of Directors 10. The board should appoint a nominating committee composed entirely of independent directors.	Yes. The board has charged the Governance committee with the responsibility of the nomination of directors. The committee is comprised of entirely independent directors.
11. The nominating committee should have a written charter that clearly establishes the committee's purpose, responsibilities, member qualifications, member appointment and removal, structure and operations (including any authority to delegate to individual members and subcommittees), and manner of reporting to the board. In addition, the nominating committee should be given authority to engage and compensate any outside advisor that it determines to be necessary to permit it to carry out its duties. If an issuer is legally required by contract or otherwise to provide third parties with the right to nominate directors, the selection and nomination of those directors need not involve the approval of an independent nominating committee.	Yes. The Governance committee's charter is contained within the Terms of Reference.

NATIONAL POLICY 58-201 CORPORATE GOVERNANCE GUIDELINES

Guideline	Saskatchewan Government Insurance
12. Prior to nominating or appointing individuals as directors, the board should adopt a process involving the following steps:	
(a) Consider what competencies and skills the board, as a whole, should possess. In doing so, the board should recognize that the particular competencies and skills required for one issuer may not be the same as those required for another.	Yes. The Governance committee undertakes a skills assessment on an annual basis.
(b) Assess what competencies and skills each existing director possesses. It is unlikely that any one director will have all the competencies and skills required by the board. Instead, the board should be considered as a group, with each individual making his or her own contribution. Attention should also be paid to the personality and other qualities of each director, as these may ultimately determine the boardroom dynamic.	Yes. The Governance committee undertakes a needs assessment on an annual basis.
The board should also consider the appropriate size of the board, with a view to facilitating effective decision-making.	Yes. The Governance committee reviews and recommends the size of the board.
In carrying out each of these functions, the board should consider the advice and input of the nominating committee.	Yes. The Governance committee reports regularly to the board and when required makes recommendations. It should be noted however that director appointments are made by Order-in-Council.
13. The nominating committee should be responsible for identifying individuals qualified to become new board members and recommending to the board the new director nominees for the next annual meeting of shareholders.	Yes. The Governance committee has a recruitment and selection process which it undertakes prior to making recommendations for appointments to the board of directors and Crown Investments Corporation.
14. In making its recommendations, the nominating committee should consider:	
(a) the competencies and skills that the board considers to be necessary for the board, as a whole, to possess;	Yes. The Governance committee reviews the competencies and skills required for the board as a whole.
(b) the competencies and skills that the board considers each existing director to possess; and	Yes. The Governance committee reviews the competencies and skills of each of the directors.
(c) the competencies and skills each new nominee will bring to the boardroom.	Yes. The Governance committee reviews the competencies and skills of nominee directors.

NATIONAL POLICY 58-201 CORPORATE GOVERNANCE GUIDELINES

Guideline	Saskatchewan Government Insurance
The nominating committee should also consider whether or not each new nominee can devote sufficient time and resources to his or her duties as a board member.	Yes. During the recruitment and selection process, the Governance committee ensures that potential nominees understand the requirements and have sufficient time and resources to devote to the board member responsibilities.
Compensation 15. The board should appoint a compensation committee composed entirely of independent directors.	Yes. The board has delegated the responsibilities for compensation to the Human Resources committee.
16. The compensation committee should have a written charter that establishes the committee's purpose, responsibilities, member qualifications, member appointment and removal, structure and operations (including any authority to delegate to individual members or subcommittees), and the manner of reporting to the board. In addition, the compensation committee should be given authority to engage and compensate any outside advisor that it determines to be necessary to permit it to carry out its duties.	Yes. The Human Resources committee's charter is contained within the Terms of Reference. The committee has the authority to engage and compensate any outside advisor it may determine is necessary to carry out its duties.
17. The compensation committee should be responsible for: (a) reviewing and approving corporate goals and objectives relevant to CEO compensation, evaluating the CEO's performance in light of those corporate goals and objectives, and determining (or making recommendations to the board with respect to) the CEO's compensation level based on this evaluation;	Yes. The Human Resources committee undertakes a detailed CEO evaluation on an annual basis. As part of that evaluation, the committee reviews the previous corporate goals and objectives and evaluates the CEO's performance against those goals and objectives. The findings of the evaluation and any compensation changes resulting from the review are recommended to the board.
(b) making recommendations to the board with respect to non-CEO officer and director compensation, incentive-compensation plans and equity-based plans; and	Yes. The Human Resources committee reviews and recommends to the board and Crown Investments Corporation of Saskatchewan any changes to compensation.

NATIONAL POLICY 58-201 CORPORATE GOVERNANCE GUIDELINES

Guideline	Saskatchewan Government Insurance
(c) reviewing executive compensation disclosure before the issuer publicly discloses this information.	Not applicable. Individuals reporting to the CEO, which include all executive members, are required by legislation to file and report any changes in their compensation to the Clerk of the Saskatchewan Legislature within a 14 day period of time. Further, by policy of the Crown and Central Agencies committee of the Legislature, the Corporation is required to file an annual payee list which also contains the compensation of all members of the executive.
Regular Board Assessments 18. The board, its committees and each individual director should be regularly assessed regarding his, her or its effectiveness and contribution. An assessment should consider:	Yes. The board conducts on a rotational basis peer assessments and reviews of the board and the chair.
(a) in the case of the board or a board committee, its mandate or charter, and	Yes. The board and its committees review their terms of reference on an as needed basis and at least every three years.
(b) in the case of an individual director, the applicable position description(s), as well as the competencies and skills each individual director is expected to bring to the board.	Yes. The board has a position description for directors, further, individual director's skills and competencies are reviewed as part of the regular assessments.

GLOSSARY *of terms*

Broker	A person who negotiates insurance policies on behalf of the insurance company, receiving a commission from the insurance company for policies placed and other services rendered.
Casualty insurance	One of the three main groups of insurance products (the others are life insurance and property insurance). This type of insurance is primarily concerned with losses caused by injuries to others than the policyholder and the resulting legal liability imposed on the insured.
Catastrophe reinsurance	A policy purchased by a ceding company that indemnifies that company for the amount of loss in excess of a specified retention amount subject to a maximum specific limit from a covered catastrophic event.
Cede, Cedant, Ceding company	An insurance company that transfers some or all of the risks in active policies to another company cedes its business. The company transferring its risks is known as the cedant or ceding company.
Claims incurred	The totals for all claims paid and related claim expenses during a specific accounting period(s) plus the changes in IBNR reserve for the same period of time.
Combined ratio	A measure of total expenses (claims and administration) in relation to net premiums earned as determined in accordance with GAAP. If this ratio is below 100%, there was a profit from underwriting activities while over 100% represents a loss from underwriting.
Facility Association	Participation in automobile risk-sharing pools whereby P&C insurance companies share resources to provide insurance coverage to high-risk individuals or businesses.
GAAP	Generally accepted accounting principles. These are defined in the Handbook prepared by the Canadian Institute of Chartered Accountants.
Gross Premiums Written (GPW)	Total premiums, net of cancellations, on insurance underwritten during a specified period of time before deduction of reinsurance premiums ceded.

IBNR reserve
Abbreviation for "incurred but not reported." A reserve that estimates claims that have been incurred by a policyholder but not reported to the insurance company. It also includes unknown future developments on claims that have been reported.

Loss Ratio (Claims Ratio)
Claims incurred net of reinsurance expressed as a percentage of net premiums earned for a specified period of time.

Minimum Capital Test (MCT)
A solvency ratio used by regulators to assess a company's financial strength. This ratio measures capital requirements in relation to the degree of risk undertaken by a particular company. The minimum amount required by this ratio, as determined by the regulators, is 1.5 or 150% of capital available over capital required.

Net Premiums Earned (NPE)
The portion of net premiums written that is recognized for accounting purposes as revenue during a period.

Net Premiums Written (NPW)
Gross premiums written for a given period of time less premiums ceded to reinsurers during such period.

Net Risk Ratio (NRR)
A ratio of net premiums written to equity. This ratio indicates the ability of a company's financial resources to withstand adverse underwriting results. The regulatory guideline is a ratio of 3.0 or lower.

Premium
The dollars that a policyholder pays today to insure a specific set of risk(s). In theory, this reflects the current value of the claims that a pool of policyholders can be expected to make in the future, as well as the costs of administering those potential claims.

Premium tax
A tax collected by insurance companies from policyholders and paid to various provincial and territorial governments. It is calculated as a percentage of gross premiums written.

Property insurance
One of the three main groups of insurance products (the others are life insurance and casualty insurance). This type of insurance provides coverage to a policyholder for an insurable interest in tangible property for property loss, damage or loss of use.

Prudent person
A common law standard against which those investing the money of others are judged against.

Redundancy & Deficiency
Claims reserves are constantly re-evaluated. An increase in a reserve from the original estimate is a deficiency while a decrease to the original reserve is called a redundancy.

Reinsurance	In its simplest form, insurance for an insurance company. It is an agreement where the reinsurer agrees to indemnify the ceding company against all or a portion of the insurance or reinsurance risk underwritten by the ceding company under one or more policies.
Reinsurer	A company that purchases the cedant risk in the reinsurance contract.
Underwriting	The process of reviewing applications submitted for insurance coverage, deciding whether to insure all or part of the coverage requested and calculating the related premium for the coverage offered.
Underwriting capacity	The maximum amount that a company can underwrite. It is based on retained earnings and investment capital held by the company. Using reinsurance allows a company to increase its underwriting capacity as it reduces the company's exposure to particular risks.
Underwriting profit/loss	The difference between net premiums earned and the sum of net claims incurred, commissions, premium taxes and all general and administrative expenses.
Unearned premiums	The difference between net premiums written and net premiums earned. It reflects the net premiums written for that portion of the term of its insurance policies that are deferred to subsequent accounting periods.

BOARD of directors

Nancy E. Hopkins (Chair)
Lawyer, McDougall Gauley,
Saskatoon, Sask.
Audit and Finance Committee,
Governance and Human Resources
Committee, Investment Committee

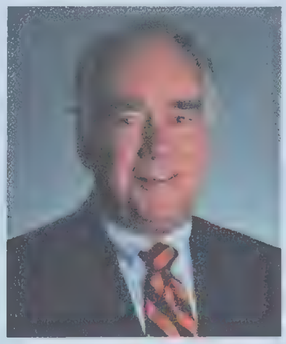
Joan F.D. Baldwin
Doctor,
Regina, Sask.
Audit and Finance Committee (Chair)

J. Walter Bardua (Vice Chair)
Retired Insurance Professional,
Nanaimo, B.C.
Governance and Human Resources
Committee (Chair),
Investment Committee

Kendra Chesney
Information Technology Analyst, SGI,
Regina, Sask.
Investment Committee

Merin Coutts
Regional Sales Manager,
Shaw Cable Systems G.P.,
Saskatoon, Sask.
Investment Committee

Robert Fenwick
Retired Insurance Professional,
Markinch, Sask.
Governance and Human Resources
Committee



W.J.A. (Bill) Heidt
Retired Insurance Professional,
Kelowna, B.C.
Investment Committee (Chair),
Audit and Finance Committee

Arleen Hynd
Retired Chartered Accountant,
Regina, Sask.
Audit and Finance Committee,
Governance and Human Resources
Committee

Wayne Hovdebo
Farmer,
Birch Hills, Sask.
Audit and Finance Committee

Jim Mills
Retired Insurance Broker,
Sask. Licenced Realtor,
Elrose, Sask.
Investment Committee

Ron Osika
Retired RCMP
Former Saskatchewan Crop
Insurance Executive,
Mayor, Fort Qu'Appelle,
Fort Qu'Appelle, Sask.
Governance and Human Resources
Committee

Neil Henneberg
Corporate Secretary,
Crown Investments Corporation,
Regina, Sask.

CORPORATE *officers*

VICE PRESIDENTS

Cheryl Barber
Vice President
Human Resources & Strategic Planning

Earl Cameron
Vice President
Claims & Salvage

John Dobie
Vice President
Canadian Operations

Randy Heise
Vice President
Underwriting

Don Thompson
Chief Financial Officer

Dwain Wells
Vice President
Systems & Facilities

Sherry Wolf
Vice President
Auto Fund

SENIOR MANAGEMENT

Doug Campbell
Assistant Vice President
Injury Claims

Deanne Cairns
Assistant Vice President
Communications

Tamara Erhardt
Assistant Vice President
Human Resources & Corporate Services

Dorothy Josephson
Assistant Vice President
Underwriting Systems & Services

Anna Lapierre
Assistant Vice President
Licensing & Registration Services

Laurie Leibel
Assistant Vice President
Systems

Cara Low
Assistant Vice President
Corporate Actuary

Bob Lundy
Assistant Vice President
Claims Urban & Salvage

Maureen MacCuish
Special Advisor to the President

Andrea Malyon
Assistant Vice President
Corporate Actuary

Penny McCune
Assistant Vice President
Canadian Operations

Bernadette McIntyre
Assistant Vice President
Driver & Vehicle Safety Services

Lyle Mosiondz
Assistant Vice President
Claims Rural

Brian Munro
Assistant Vice President
Corporate Controller

Grace Parsons
Assistant Vice President
Commercial Lines

Don Phillips
General Counsel
Legal

Kwei Quaye
Assistant Vice President
Traffic Safety Services

Lorne Whippler
Assistant Vice President
Personal Lines

Betty Weigel
Manager, Business Affairs & Corporate Secretary

IN *memoriam*

KEVIN CUNNINGHAM, Appraiser, Yorkton Claims Centre, was known by his colleagues as a skilled professional with a kind-heart and a friendly demeanor. New employees could often be found seeking his advice or using him as a sounding board. Outside of work Kevin loved to fish, golf and spend time outdoors. Kevin worked for SGI for 10 years. He passed away suddenly on July 10, 2006 following a heart attack at the age of 45.

RAYMOND GOLEMBA, Special Investigator, Special Investigation Unit, Regina, was regarded by his peers as a very kind and warm person. Colleagues describe him as their "gentle giant" and that he was as strong as a bull, but could be as gentle as a lamb depending on the situation. Co-workers always enjoyed his stories of gardening or hunting, especially when he brought fresh vegetables and meat to go along with those stories. Ray worked for SGI for four years. He passed away suddenly on October 15, 2006 from a heart attack at the age of 57.

JOHN GREEN, former SGI President, was known as Mr. SGI by his colleagues and friends during his five decade association with the company. Starting in 1945, John was hired as a legal advisor to specifically help solve the growing problem of compensation for auto accident victims and ultimately helped draft Saskatchewan's *Automobile Accident Insurance Act*. John worked for SGI for 35 years retiring in 1980. Even in his retirement John couldn't stay away from SGI, serving as a special consultant to the President for many years and helping draft the no-fault insurance program that was implemented in the mid-90s. John passed away on January 2, 2007 at the age of 91.

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